

Nation's Business

USEFUL LOOK AHEAD

MARCH 1966



**IS
WAR
ON POVERTY
BECOMING
WAR
ON BUSINESS?**

PAGE 40

We can fight inflation without controls

PAGE 33

So, your employees don't like you

PAGE 74

**8 little-known ways
to cut your tax bill**

PAGE 36



Evinrude introduces the hot new 100-S

***For the first time in your boating experience
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Standard of the World



Cadillac



Cadillac Motor Car Division



Nation's Business

March 1966 Vol. 54 No. 3

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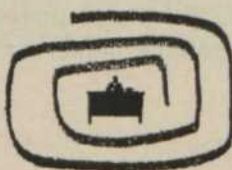
Cities having the most experience with federal programs aimed at urban blight find out how these projects turn sour

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Editor
Jack Wooldridge

Managing Editor
Tait Trussell

Associate Editors
Paul Hencke
Theodore D. Drury
Jeffrey S. O'Neill
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WASHINGTON: A LOOK AHEAD

Talk about taxes, and you're talking about politics.

They go together.

What will really shape President Johnson's tax plans? Will he ask Congress this year to raise personal and corporate income taxes?

Semantics is important.

First, if LBJ asks, he'll get. He won't ask until he has the votes.

Second, personal AND corporate rates go together. Politically, Congress can't vote to hit individuals and leave corporations alone. But the money is in the individual rates. Across the board, a one percentage point increase in individual rates brings in \$2.5 billion; a corporate increase would yield \$700 million per point. (An excess profits tax seems out of the question unless formal wage-price controls are enacted. And there's so much red tape involved in new excise taxes, Treasury opposes them.)

Third, "asking" and voting are different from collecting a raise this year. Voters rarely anger until the pay check shrivels. But LBJ will have to show overwhelming need and national support to get a tax cut before November election.

A high ranking Treasury official puts the political realities revealingly:

"To change the tax laws . . . you must have support that runs from two thirds to three fourths of the country. A close majority is never sufficient," observes Joseph W. Barr, Treasury Under Secretary.

So, what will convince the nation's No. 1 politician to test that majority?

Inflation, that's the answer.

Federal deficit as such plays no part in the thinking. Administration isn't concerned—as an individual would be—about getting more money to pay its bills. That's passé in today's government economics. What's important in

dampening inflation is how much money Uncle Sam takes away from people, potential spenders. Dr. Saulnier, formerly Ike's top economist, explains all this clearly starting on page 33.

When will LBJ decide on taxes?

No magic date, his advisers maintain. But midyear will be important. Congress will be itchy to go home about then. President will have to decide if he wants quick action before Congressmen go. Big war spending will be more broadly felt by then. He'll know how much spending Congress will have okayed for next fiscal year.

Already you're being softened up for the tax boost pitch—if it comes. The maybe-we-will, maybe-we-won't talk from federal big shots. The candid admission that Viet Nam costs are open-end and unpredictable. The sudden discovery of inflation's dangers. Commendable concerns.

But look what's missing: No offer to cut or even hold steady spending for nonessential Great Society schemes. The blame for inflation falls on war and business, to hear this talk. Congress knows better.

And so we're back to politics.

Pity the poor economist.

For the second year in a row, the "Congressional Directory," the authoritative guide to who's who in the government, has misspelled the last name of presidential economic adviser Arthur M. Okun, as "Okum."

Viet Nam buildup stirs interest in defense contracts.

National Security Industrial Association expects rise in number of firms attending its five regional briefings starting this month. Pentagon aides answer questions on procurement needs and procedure. Defense subcontracting

WASHINGTON: A LOOK AHEAD

runs high. Lockheed figures subcontractors will make three fifths by weight of the enormous C5A jet transport it's building for the Air Force.

Union chieftains seeking more power

face new setbacks as arrogance boomerangs.

What's happening in Wisconsin points this up. A Milwaukee local of the American Federation of State, County and Municipal Employees union (AFL-CIO) struck a city sewage plant Dec. 30 despite a flat ban in state law against strikes by public employees.

Not only that. The union ordered the strikers to shut intake gates at the plant, thus diverting raw sewage into Lake Michigan, from which Milwaukee draws its drinking water.

The result: state-wide outrage.

"Anarchy," editorialized *The Milwaukee Journal*. Gov. Warren Knowles vetoed a union-sought agency shop law largely as a result and now has a study under way into strengthening the no-strike law. The Wisconsin Labor Relations Board heard proposals to disenfranchise the union.

Added to the New York transit strike and other muscle-flexing tactics, the Milwaukee union action is making it easier for Congressmen in Washington to vote against union demands.

Even tighter credit is coming, monetary experts are forecasting in Washington and New York. As a result, expect higher interest rates, shorter payment terms.

Federal Reserve Board may raise its discount rate again sooner than many might expect. Impact of the December increase to 4½ per cent is being felt fully for first time this month. FRB will also use its other, less dramatic weapons to tighten credit.

Want to boost your city abroad?

Uncle Sam's U. S. Travel Service is launching a new campaign to get cities, states to furnish it more tourist information for distribution abroad.

U.S.T.S. also plans big step-up in advertising abroad. This year's theme, Festival U. S. A.-'66,

plugs such events as this month's Natchez Pilgrimage in Mississippi and Puyallup Valley Daffodil Festival in Washington State.

Two European springtime crises promise new strains on Uncle Sam's freer trade policy, our whole defense system. They'll force Johnson to divert attention from Viet Nam.

As a businessman, you'll want to keep watch, too, especially if you're mulling new buying, selling, or investment ventures over there. Factor this into your spring-summer plans for overseas business trips.

The crises:

Hard trade bargaining under way now will decide if big tariff-cutting conference will spur trade or flop. President's power to ax tariffs runs until mid-1967, but multi-nation deals must be made this year to give him time to act. Trouble is that Europe's Common Market doesn't know what it wants, thanks to its cold war with France's President de Gaulle. He knows what he wants: more power and wealth for France.

Freer trade champions, Administration men contend a bum bargain on tariffs would aid protectionists at home, sour Congress on future broad-scale tariff-cutting. Government policy makers cultivate speculation they may sidetrack aim of raising sales of U. S. farm goods in Europe in order to get better deal on industrial products.

Defense crisis depends on de Gaulle, too.

State Department braces for a demand from the General this spring for more say-so for France in NATO. U. S., other allies will turn him down.

Diplomats reason de Gaulle would then use turndown as excuse for pulling France out of NATO in 1969, his first chance under treaty.

P. S. On foreign trade, the U. S. boom means imports will rise in 1966 faster than the 13 per cent gain last year, say forecasters. Exports climbed only four per cent. The Chamber of Commerce of the United States slates a symposium on March 31 to discuss the effect.



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"One mill per mile less for maintenance...four-tenths of a mile more per gallon...no wonder we like Fords"

...says Mr. Robert Hamilton, Director of Fleet Maintenance, Branch Motor Express Co., New York

"We wanted to find the best tandem-axle sleeper for service on our long runs between Buffalo and Greensboro, N.C.," says Mr. Hamilton. "So we tested a Ford HT-950D together with three other comparable Diesel tractors.

"In less than nine months, our Cummins-powered Ford rolled up over 96,000 miles...gave us the economy and performance we were looking for. Computer calculations showed Ford operating costs to be lower than the competitive makes—at least one mill per mile less for maintenance, and four-tenths of a mile better fuel mileage than any of the others. Performance was excellent, too, even with maximum loads in mountainous areas.

"Based on this record, we've ordered 35 additional Ford tandem-axle sleepers. We think these new tandems will be the best-performing vehicles in any fleet in the eastern United States."



C. G. Egan, a Ford National Account Manager, discusses new Tandems with Marvin F. Burten, President, Branch Motor Express Co.



FORD HEAVY DUTY TRUCKS

Industry group charges misplaced halo

To the Editor:

There are many thousands of owners and managers of printing plants in the United States that are disturbed about the recent article in NATION'S BUSINESS extolling the virtues of a New York lithographers union: "Working with a Capitalistic Union" [January]. Our intimate knowledge of the facts over a long period of time leads us to conclude that the story as reported in NATION'S BUSINESS leaves an impression upon the reader that is quite inaccurate.

Many informed industry persons would deny vehemently the many inferences the article reports concerning the role of Amalgamated Lithographers of America Local No. 1 in the progress of the lithographic industry. Press equipment engineers, paper and ink manufacturers and the research of the well known Lithographic Technical Foundation (now named Graphic Arts Technical Foundation) really put lithography where it is today. Local No. 1 was not "in the vanguard of this revolution."

The article does not state well known facts concerning the movement of printing plants out of the New York area because of the competitive disadvantage in labor costs resulting from such items as "an average wage of \$200 to \$350 for a 35-hour week"; "four weeks of paid vacation and 10 paid holidays."

A New York Times article dated Jan. 16, 1966 quotes a local industry authority as saying that since 1960 "there has been a loss of 600 to 700 jobs" in the industry in New York not caused by automation, "but to diversion of some work to printers in other cities." This at a time when employment in the printing industry as a whole is constantly rising at a rate of about three per cent a year.

Our files record the names of 20 plants that have closed down or moved from New York, and we know of others quietly contemplating such a move.

Your halo above ALA No. 1 real-

ly gets misplaced when featherbedding is discussed. Most industry leaders believe that when there is an excessive number of men on a press, you have featherbedding. Based on country-wide experience, there are adequate examples of Local No. 1 requiring more crew members than are necessary.

It may be, when compared with some other industry featherbedding practices, ALA No. 1 has fewer cases. Perhaps we don't understand the fullest use of that term, but in our judgment, this section of the article needs fuller definition.

We will not comment in detail on several other questions raised by the article in connection with "automation," "no strikes," the expenditure of union funds for TV programs, car cards, etc., but want to ask in closing why NATION'S BUSINESS would publicize a union that insists always on a union shop clause, which compels all employees in the unit to join the union, pay its dues and fees or be fired.

O. T. HAMILTON, JR.
President
Master Printers Section
Printing Industries of America
Washington, D. C.

Stopping urban renewal

To the Editor:

The article on urban renewal ["Where Did Frank's Building Go?" January] was excellent. Many of its statements could apply to our situation here in Pikeville and that is why I am writing this letter.

Our mayor has started the red tape mill working overtime on a big, big project which involves millions of dollars and about one third of our business section. Of course, it is all labeled as urban renewal.

What are the best steps to take in trying to halt, slow down and stop such people or projects?

R. H. HOBBS
R. H. Hobbs Co., Inc.
Pikeville, Ky.

► See "Business Can Save America's Cities," Nation's Business, Nov., 1965.

Metric system a must

To the Editor:

In the article, "U. S. Should Not

This free
reference book
belongs in your
corporate
library...



It indicates
specific fields of
opportunity for
industry & individuals
in The Changing
Middle South

(Arkansas, Louisiana, Mississippi)

Here are 110 pages of 40-year cumulative statistics depicting the economic history and progress of The Changing Middle South. Tables in 15 categories show significant economic indicators, including population, personal income, construction, finance, manufacturing and mineral production.

Industry's ever-increasing interest in this three-state area prompted a compilation of regional data for quick reference.

Now in its sixth edition, the book presents information vital to profitable business decisions relating to the area. Use the coupon for your free copy.

Please send me, without charge,
the 6th edition of

THE CHANGING MIDDLE SOUTH Basic Economic Data

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Business opinion:

Adopt "a Whole New System of Measurement" [January], John A. MacLean, Jr., states there is no demand for metric fasteners.

What about the need to supply the fasteners for the new battle tank to be constructed jointly by the United States and West Germany which Secretary of Defense Robert McNamara decreed will be assembled with metric fasteners?

The problems of conversion to metric standards are very great, but they must be resolved.

LOUIS F. SOKOL
Meteorologist
United Air Lines Weather Center
Elk Grove, Ill.

Mr. Albert's slip

To the Editor:

"What New Laws Congress Will Pass" [January] was quite informative in more ways than first met the eye. For instance, House Majority Leader Carl Albert's conflicting statements as follows:

First, "I think that this country is convinced that the Congress acted wisely and showed great capacity to legislate."

And then, in reply to a question about U. S. aid for international education, "I don't know about that. I haven't had any indication from the Administration that that was coming."

Just who is supposed to do the legislating anyway? We saw who does it in the first session of this Congress.

MERVIN L. MARTIN, C. P. A.
San Diego, Calif.

Deductible union dues

To the Editor:

Thank you for the article: "Bad News for Union Bosses" [December].

Among the letter writers you quoted, who urged Congress not to repeal Section 14 (b), no one mentioned enforced union membership giving unions the right to tax workers for their employment—via dues.

The huge loss to the government from such dues being deductible from income tax—and the government having neither income from nor control of such dues collections by unions—already has made unions into a Frankenstein monster that may threaten the integrity of every elected lawmaker.

May God help us all if the unions get this further enslavement power they seek.

DWIGHT W. POWERS
Pittsburgh, Pa.

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SAN FRANCISCO SACRAMENTO	35	1 hr. 40 mins.	1.40	1.60	1.80
NEW ORLEANS MOBILE	16	3 hrs. 20 mins.	1.85	2.10	2.45
ATLANTA BIRMINGHAM	11	3 hrs. 30 mins.	1.85	2.10	2.45

*Other low rates up to 100 lbs. Lot shipments, too.



One of a series of messages depicting another growing service of The Greyhound Corporation.

Business taxes in New York State are lower than you think

Many firms interested in relocation consider only state taxes. But in many states you pay for vital services such as roads, sewerage, fire and police protection through a complex maze of local taxes, which are often less flexible and predictable.

In New York State business tax collections have risen less than in any other state. Moreover, a recent state law allows you to write off any plant or equipment in half the time allowed by the federal tax authorities. And you can write off research and development facilities in just one year.

NO PERSONAL PROPERTY TAX

In many states personal property taxes exceed real property taxes. And these property taxes must be paid each year, regardless of profit or loss. However, in New York State there's no tax on personal property including inventory, equipment or raw materials.

TWO STATES COMPARED

Take the example of a manufacturer who has to maintain expensive production and research equipment. Here's how this tax bill would be assessed in New York and in a neighboring competitive state.

STATE "X" TAXES	NEW YORK TAXES
State Sales and Use 7%	
State Franchise 16%	
Local Property: Real Tangible Intangible 77%	State Corporate Franchise 62% (Based on Income)
	State and Local Sales and Use 8%
	Local Property: Real Only 30%
 Inflexible Taxes	 Flexible Taxes

The taxes in the neighboring state are inflexible and based to a great extent on real or personal property including inventory. These stay the same, regardless of earnings. In New York over 60% of the taxes are flexible and based on profit. This prevents high taxes in a bad year.

FREE TAX BOOKLET

For a complete picture of the tax system in New York State send for our free tax booklet. You'll see some important reasons why more firms have relocated in New York State than in any other state for the fifth straight year.

And if you have any other questions on plant relocation in New York State, send them along, too. Your inquiry will be coded for complete secrecy.

Write: Commissioner Keith McHugh, Room 150, 112 State Street, Albany 7, New York. Or, if you prefer, ask any responsible third party to contact us.



DISCOVER WHAT'S NEW IN NEW YORK STATE

Executive Trends

- Shortages—war or no war
- Why politicians want you
- When training hurts your business

Whatever happens in Southeast Asia, your company is likely to feel a growing manpower squeeze if it hasn't already.

Military service is taking many promising young men out of the work force and executive training. Add to that the boom, which is constantly shrinking the number in the job market.

Result: Competition for good people, already keen, will intensify.

One professional recruiter—Hardy Jones of New York City—says if the Viet Nam situation seriously worsens this spring the pinch on the supply of younger managers will be "substantial" by midsummer.

Now look at the other end of the spectrum—senior men. Here there is a three-part pressure—retirement, disability and death. Some companies, badly needing experienced executives (especially in finance, engineering and production slots) have begun to drop age barriers and woo retirees back to work.

To protect your firm against manpower uncertainties carefully inventory the talent you have on hand—at all levels.

This will enable you to pinpoint job areas where you are most vulnerable to losses, whether from military call-ups, retirement, job switching or other forms of attrition.

Businessmen's worries over Viet Nam explain rising inquiries at the Office of Emergency Planning (OEP) in Washington.

OEP has a "surveillance committee" of in-house experts paying

close attention to potential impact of Southeast Asian war on domestic business. The five-man committee meets twice weekly, makes secret reports to OEP's director and to LBJ.

OEP itself is busy recruiting more talent for the National Defense Executive Reserve, a 3,400-man pool of top managers and professional men. They're on call for emergency service in nine federal departments and agencies. OEP plans to up this force to 5,000 by the end of 1967.

Average executive reservist is 53 and a corporate vice president. Reservists, if called, would hold supergrade federal jobs. The Reserve program was originally designed with all-out war in mind, but now OEP mulls selective use of reservists in limited war. Interested in joining? Write to OEP in Washington.

• • •

Politics is attracting more and more middle managers, Thomas R. Reid, public affairs program director at Ford Motor Co., says.

This trend applies nationally, he finds, not only in his company. There's a growing awareness, he believes, that the front office means it when it tells its people to play a more active role in the party of their choice.

"It should be pointed out, too," he continues, "that some public affairs programs are of relatively recent vintage and are just now beginning to show cumulative results."

Some observers predict "surprises" at the part business will take



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Eight safety features now standard on this Impala Sport Sedan include outside mirror and back-up lights. Look behind you, then look again!



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EXECUTIVE TRENDS

continued

in politics this year—especially in Congressional races. They foresee heavy business support for candidates who, for example, believe the market place, not arm-twisters, should set prices.

Note: Business sponsorship of in-plant fund raising campaigns is gaining in popularity. The Chamber of Commerce of the United States plans release this month of a new booklet explaining how such programs can be conducted.

• • •

Approach of congressional elections this fall—and many state and local contests—revives business interest in politics.

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Note: Sources in Washington say businessmen's political contributions have been running heavier than expected so far in '66.

• • •

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• • •

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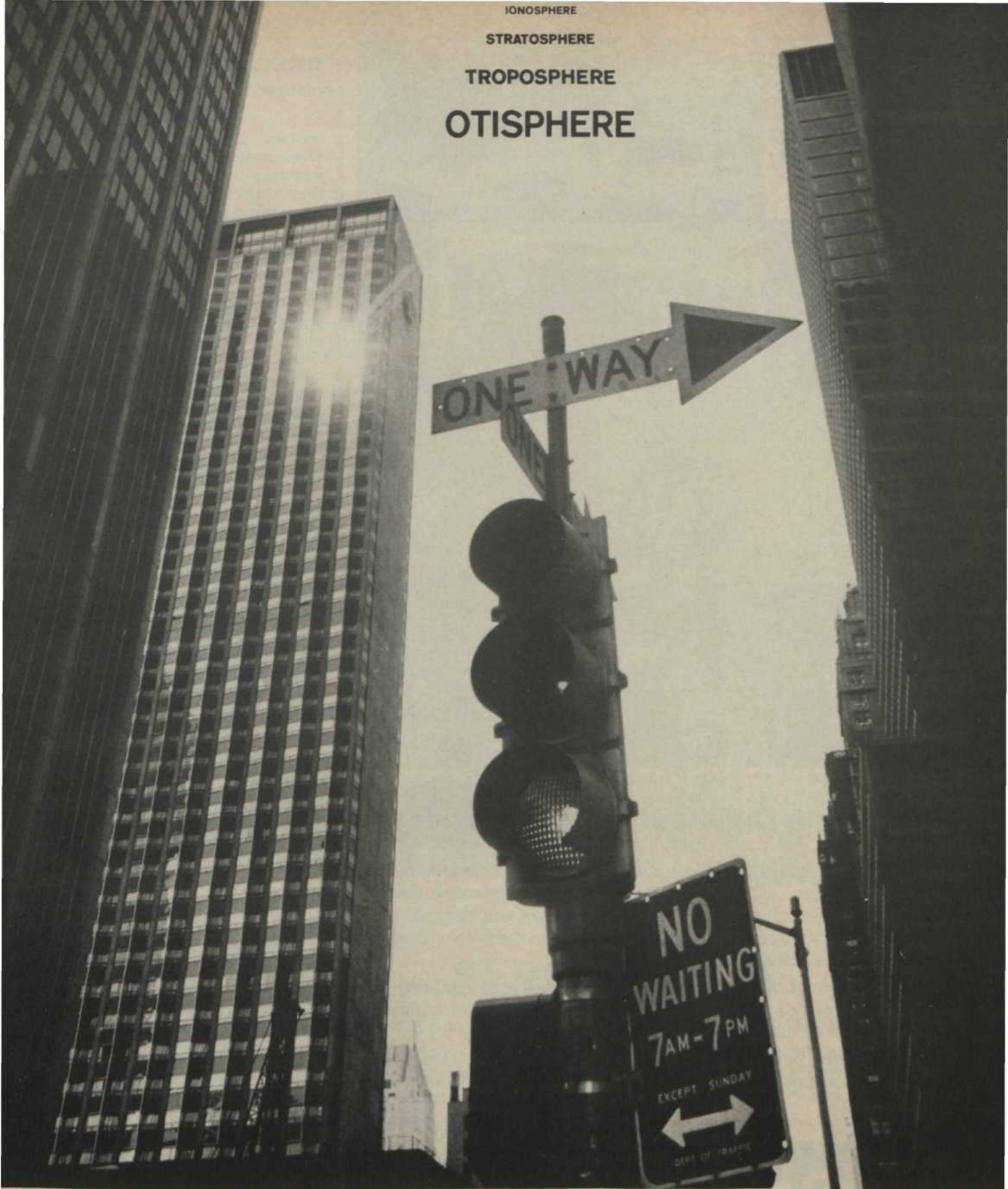
When a worker fails to show, his time card is pulled and an absence card put in its place. This forces him to report to his boss before starting work. The boss writes on the absence card the worker's excuse for not showing up. The cards

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EXECUTIVE TRENDS

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Now researchers are launching a national study of the question. It's still in early stages at a midwest university—and under wraps.

• • •

Do "industrial chaplains" influence labor peace?

They're ministers companies retain to serve the spiritual needs of employees. The idea got off to a fast start, but now has faded.

An eastern clergyman explains why: "Companies ran into too many instances where chaplains were charged by employees with being used to talk them out of their grievances against management.

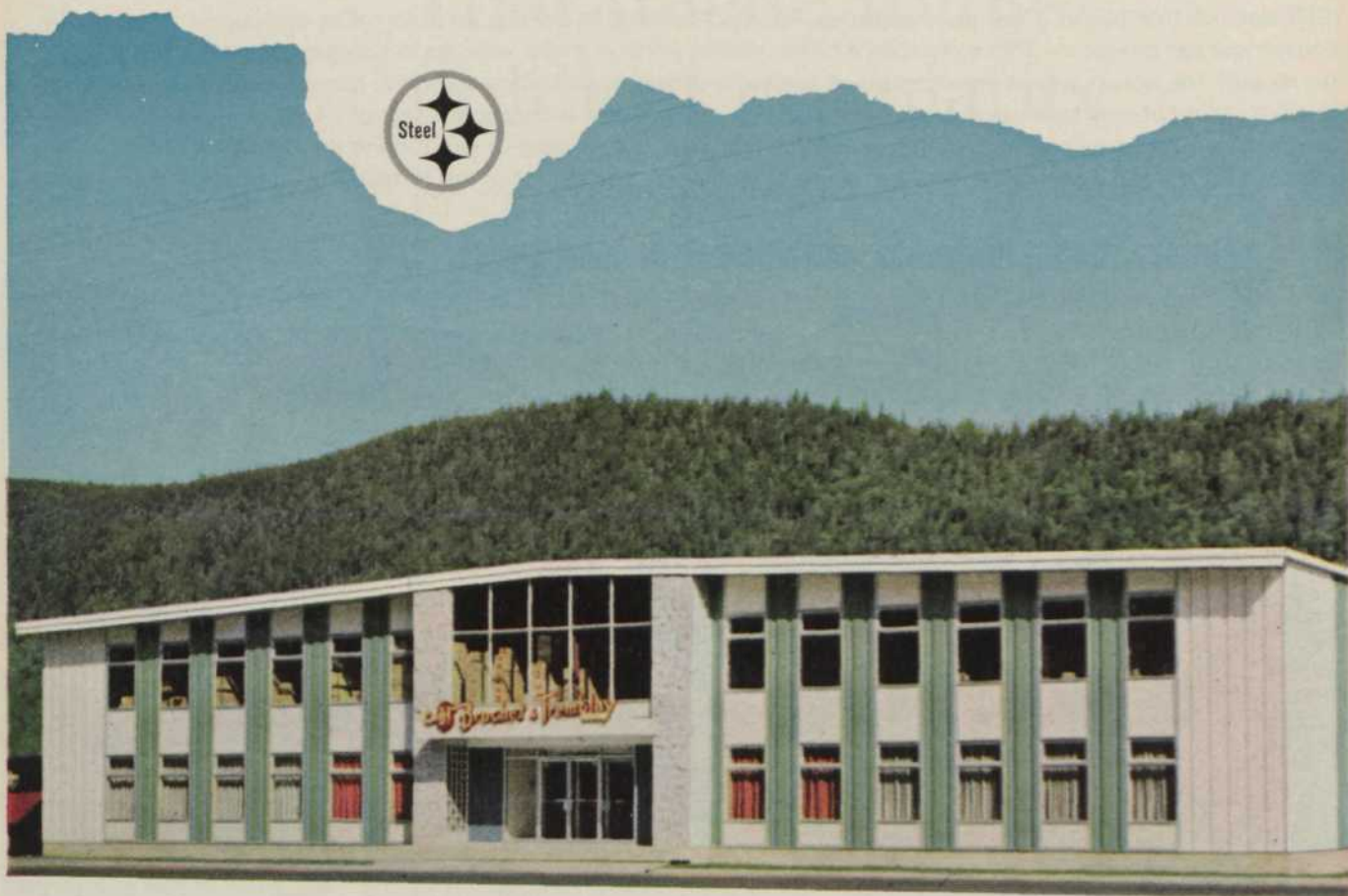
"Some workers felt the chaplains were telling them, in effect, that they should shoulder their gripes as an act of Christian humility. This was enough to scuttle some programs."

• • •

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That fragile thing— political popularity

BY PETER LISAGOR

The political soothsayers, who realize the dangers of prophecy and usually leave themselves more escape hatches than a Houdini, have raised a moist finger skyward and detected a tentative shift in the wind.

They're not quite ready to hock their guilt-edged debentures on the outcome of this fall's Congressional elections. Nor do they believe that President Johnson has lost his political touch or personal techniques. They even hesitate to make a dogmatic judgment about the possible consequences of the war in Viet Nam.

But they are now prepared to venture the prediction that the Republicans have a good chance to pick up 30 to 40 seats in Congress in November, which will not restore the G.O.P. to full health but which will make the minority position considerably more respectable.

This is a sharp reversal for the seers. It reflects a lifting of the despair felt by G.O.P. leaders just a few months ago, when they wore their chins on their sternums in contemplation of the melancholy prospect that they might pick up only a scant handful of seats, at best. This would be an embarrassment, or worse, for in the off year elections, with rare exceptions in modern history, the party in power takes some pretty substantial lumps at the polls.

Nobody can say with assurance just why the change in the Republican attitude is as marked as it is. And none will certify the change as an enduring one. In politics, the winds are as mercurial as the whims of a calculating opera singer who has come to rely more on her publicity than her voice.

But it is now believed that those Republican voters who strayed into the Democratic fold in 1964 probably will return in large numbers to their original affiliation and preference.

If the apostates return to orthodoxy as expected, they could conceivably recapture nearly 30 seats in six states alone where traditionally Republican dis-

tricts voted surprised Democrats into the House of Representatives—seven in New York, five in Iowa and four each in New Jersey, Michigan, Ohio and Washington. There are many others scattered about the country, of course.

• • •

The G.O.P. would be quite foolish, however, if they thought the swing back is automatic. The Democrats haven't been dozing. They haven't stopped running for re-election since they arrived in Washington, and what's more important, they've been build-



Two of G.O.P.'s bright new hopefuls: Mayor John Lindsay of New York and California's Ronald Reagan.

ing new post offices and other stimulating projects in their districts. Democrats work at politics around the clock, and they take care of their own when their hands are on the levers of power and patronage.

At the heart of any electoral calculations is President Johnson's conduct of the Vietnamese war, a struggle full of enigmas and lacking in patriotic excitement or exhilaration. The Republicans have generally supported a sterner posture in the war than many Democrats, but they, too, have been divided. Senate Minority Leader Everett McKinley Dirksen

Mr. Lisagor is the White House correspondent for the Chicago Daily News.

TRENDS: WASHINGTON MOOD

has tended to agree with the President's carefully controlled and limited response to the communist attempt to seize South Viet Nam by force. House Minority Leader Gerald Ford has supported the advocates of harder air and sea blows against military targets in North Viet Nam; he apparently believes that such actions can be a substitute for the tough fighting on the ground by American troops which most strategists maintain to be inescapable.

The President's peace offensive in late December and early January made it plain to the world that he wanted a Viet Nam settlement at the conference table. The communists scoffed at his efforts. Those Americans—the so-called “doves” in the dove-and-hawk breakdown—who supported the most desperate moves to obtain a peace conference were unable to fault the President's campaign to promote talks.

In a political sense, Mr. Johnson immobilized his critics on the left with his peace initiatives and disarmed those on the right by calling for steady hammer blows. But most Washington observers agree that the President probably would take serious political risks if it meant that he could liquidate the war.

He has been somewhat handicapped by the suspicion of many that he revels in the use of stratagems and subterfuge to achieve his political ends. But few question the sincerity of his desire to end the suffering and waste of a war that has frustrated him at every turn. He is obviously pained by the casualty lists and dismayed by the diversion of so much of the nation's substance into Viet Nam.

It is the conviction of many that he would accept a compromise solution, even if it made him politically vulnerable at home. He probably would be severely criticized by the hard-liners who believe that military victories have not become an obsolete concept, but the chances are that the bulk of the voters would support a compromise in Viet Nam that proved to be not too blatant a setback in the struggle against communist expansionism. That, at least, is a judgment of those who know the depth and intensity of the President's distaste for presiding over an ugly war.

He has confided to associates, in speaking of the communist adversary, “They won't give me a break.” In that remark is no suggestion that he will not do what is necessary in a military sense to force his own breaks.

From the Republican standpoint, it is much too early to figure how the war might cut in November. There is a wide streak of chauvinism in the American personality and President Johnson is an admitted master at exploiting native characteristics. Much will depend, of course, upon the scope of the war, the number of casualties, the inroads upon domestic programs.

Mr. Johnson moved to disarm some liberal critics with his dramatic Honolulu conference with South Viet Nam's young ruling generals, in which improving the condition of the Vietnamese people was the major

theme. Reform can be a powerful weapon in the struggle.

The President appears to have figured rightly that the political impact of the war is greatly diminished when he moves ahead on what he calls his Great Society front. He has made the manifold problems of the big cities a major target, and if he succeeds in relieving only a few of the strains and tensions of urban life, he may neutralize the war as an issue or make it as manageable as possible in political debate.

He can be expected to dramatize changes he plans for the executive branch which would tighten up and make more coherent many loosely coordinated and costly administrative practices.

He has an opportunity to make a statesmanlike assault upon the specter of famine in many parts of the world. He has reduced the space program a bit, perhaps on the defensible assumption that it has lost a great deal of its political appeal and is verging on the routine and thus risking a bored reaction from the people.

Above all, he has not lost sight of the source of any Democratic President's strength—the big-city, ethnic, labor, race combinations which profit not only from the whole domestic program of the Great Society in all its welfare glory, but also from the symbolic gestures of integration and achievement. He has appointed the first Negro to the Cabinet and elevated a Negro woman, the first of her race, to the federal bench in New York.

The Republicans have been holding meetings of big-city party chairmen to cope with the largely Democratically controlled urban centers, and they plan to use full-time, professional staffs to work at grass roots, or asphalt-based, politics. Their problem is that most of the territory has been usurped by Democrats for so long that a major demolition job may be needed to dislodge them.

• • •

President Johnson has created for himself a problem of public relations that has been both surprising and unnecessary. He has, through his spokesmen and aides, chosen to make a whipping boy of the press. He has arrogantly assumed that he can take the press or leave it, and that when he condescends to deal with it at all, he is bestowing favors upon it. His chief spokesman has baldly proclaimed that he prefers to speak to the people directly through television and thus avoid the interpretations of the writing press.

The odd thing about this attitude is that the President is formidable at press conferences and knows more techniques and tricks for dealing with individual members of the press on a friendly and persuasive basis than most politicians will ever learn. He is exceptionally articulate and influential in his press relations when he deigns to engage in them.

The press is not notably agitated by the White House attitude. It has, as an institution, survived such sieges in the past. Moreover, there is a faintly complacent view among its members that when the elections draw near, Mr. Johnson will become more accessible and maybe even resume the old informal dialogue with newsmen that has served him so well during the generation he has spent in Washington.



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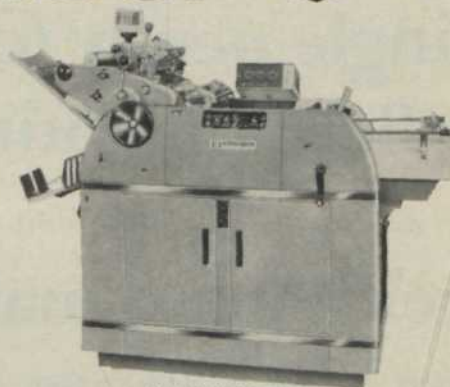
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What's behind the student demonstrations

BY FELIX MORLEY

With the advent of spring a renewed outbreak of student demonstrations, right across the nation, may be expected. Indeed it is almost as predictable as the coming of the daffodils in a thickly planted garden, and for much the same reason. Therefore, rather than either condemning or applauding, we may profitably seek to understand a phenomenon which roots in the rapidly changing nature of American college life.

The first point to realize is that the nominal objectives of the student protests are psychologically of secondary importance. What is significant is the emotion behind the gathering rather than the channel it follows, whether the latter be directed against the war in Viet Nam, the denial of civil rights, or merely some restrictive campus regulation. This is suggested by the ease with which a counterdemonstration can usually be organized.

Equally subject to discount are the assertions, now voiced by many a worried dean, that these youthful rallies are the work of a small minority and that the large majority seek only to follow the even tenor of their ways. Mass activity is always prompted by a minority and the test of its validity is whether the less emotional are opposed. A survey of college newspapers will show that this is seldom the case.

To illustrate, a University of Wisconsin poll recently revealed that only 12 per cent of that student body considers the institution "highly depersonalized," while 20 per cent denied the allegation. But 68 per cent gave a "moderately depersonalized" verdict and therefore would scarcely be resentful of open protest against what is now often referred to as assembly line instruction.

• • •

While rapid population growth is bringing new problems in many areas of American life, nowhere is the effect more pronounced than under the campus elms.

Dr. Morley is a Pulitzer Prize-winning former newspaper editor and college president.

It is predicted that the population of the country as a whole will increase 6.9 per cent during the five years from 1965 to 1970. But the projection of increase for the 18 to 21 age group during that period is 17.8 per cent. This follows an actual increase of 26.9 per cent in that age group during the past five years.

The number of postwar babies reaching college age is now tailing off. But it is still large enough to insure continuation of the campus congestion which for the past half-decade has severely shaken traditional tranquility. And any decline is offset by the increasing proportion of high school graduates who are going to college.

Confronted by a huge enrollment surge the loose-knit organization of American colleges has become vastly more complicated while retaining its central characteristic of dispersed responsibility. To identify the five elements involved is to show that the student body, for all its numerical increase, now receives less consideration than used to be the case.

There are, of course, differences among the public, the church-related and the independent private educational institutions and further differences within each category. But there is also a remarkable basic similarity, whether the school be a huge state university with 50,000 students, or a small private college with a handpicked enrollment of 500. Naturally, the smaller the school, the less the obscurity of the individual student. Something to relieve his anonymity can be achieved through self-government and extra-curricular organization.

At the top of the institutional hierarchy is the board of trustees, with a function similar to that of the directors in a business corporation. The difference is that few college trustees have much personal experience of the educational process. Some, perhaps even a majority, will be graduates of the school they now nominally direct. But nostalgia for bygone conditions may be a handicap in confronting the problems of today.

In consequence, though many exceptions could be cited, the role of college trustees is generally confined

to maintaining financial solvency (often through generous personal contribution), to handling the investment of funds, approving expansion of plant and other housekeeping operations. There is often little communication between board and faculty and usually none at all between board and students.

• • •

The second element in the college hierarchy is its administration, under a president who is appointed by and responsible to the board. Originally simple, the administration of even small colleges has in recent years become increasingly complex and costly. To free the president for fund raising and public activities he is now backed by a battery of vice presidents or functional assistants under other names. Under them, in turn, is found a small army of deans, comptrollers, admissions officers, directors of athletics, student counselors, publicity men, dieticians, housekeepers, gardeners, handymen and janitors.

The more such functions proliferate, the more they obscure the teaching process for the president, whose eye must be more closely focused on the foundations and governmental agencies which, hopefully, will balance his ever-expanding budget. Traditionally, the college or university president should be a scholar, with some teaching experience. That has gone. "Prexy" today often cannot identify all of his faculty, let alone the students who swarm like rabbits under his distracted surveillance.

• • •

Appointment of the faculty, the third and central element in the picture, is nominally a presidential duty, subject to board approval. But, even in smaller colleges, the faculty has now become a self-perpetuating body. Vacancies are filled, in fact if not in theory, by nomination from the department which has openings. Naturally, the teacher recommended for appointment is one whose personal and professional attitude is acceptable to his future colleagues, which helps to explain the widespread belief that at many schools the teaching of controversial subjects is "unbalanced."

While instructors and assistant professors are appointed on a probationary basis the college teacher soon acquires tenure, meaning that he can be dismissed only for flagrant misbehavior. In consequence, whether well or ill paid, he is in an unusually protected and noncompetitive position. If uninterested in his students, as sometimes happens, nobody can force a change.

On the other hand any interference with the teacher's "academic freedom" is likely to bring stern intervention by the powerful American Association of University Professors. Its formal censure is something which college presidents and trustees are uniformly anxious to avoid.

A fourth and growing element of academic importance is the carefully cultivated alumni organization. For independent colleges, at least, the device of

"annual giving" has become a vital budgetary factor. All graduates are card-indexed both by classes and localities, with an administrative staff on campus to work with the alumni council. During the annual campaign the college president will make a tour of the alumni groups, reasonably hopeful of contributions from at least 50 per cent of all living graduates.

With this thorough organization has come a greatly increased alumni interest in alma mater, going far beyond the ancient desire to see a winning football team. As continuous patrons the old grads want to know whether their college teaches classical as well as Keynesian economics; how much attention is given to constitutional government; what is the relation between beatniks and the study of Existentialism? In consequence, alumni magazines have changed at least as much as any other house organs in recent years and try to present an image more revealing than that of campus photography.

• • •

The undergraduates, unfortunately, come last on the list of the elements which fuse to form an American college community. Although the institution is there to educate them the students are too often regarded, at least in the huge state universities, as raw material to be efficiently processed. The current move to identify every accepted freshman by a nine-digit social security number is a good illustration of the coming computerized campus.

It is this dehumanized, mass production attitude that accounts for much of the rebelliousness which flares out in various kinds of student demonstrations. There are, of course, other factors involved, such as the softening of discipline that affects all but the military aspects of modern society. But it cannot be said that student restiveness today springs from any distaste for learning.

The present generation of college students is on the whole better read, more industrious and intellectually alert than ever before. None can coast through college and go on to graduate work under present competitive conditions.

What has been lost, in the rapid enrollment surge, is not intellectual competence but the unhurried process of maturing which went quietly forward when relatively few went to college and those to places where teachers knew not only the capacities but also the problems of their students. In an effort to meet this deficiency nearly every college has now added professional psychiatrists to its staff. They cannot check the human urge to demonstrate against an overmechanized conformity.

The best education, it was said a century ago, was Mark Hopkins (a famous president of Williams College) on one end of a log, a student on the other. Today they are likely to be together only in a huge auditorium when the diplomas are handed out.

With the complicated organizational development here surveyed the colleges have successfully met the enormous quantitative problem dumped upon them. Henceforth the pressure for admission, though heavy, will tend to diminish. If the breathing spell is used to examine sympathetically why students demonstrate, there will be less of it in future years.

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Why bureaucrats rate programs above people

BY ALDEN H. SYPHER

One hundred and forty-three federal aid programs this year will spread more than \$13.3 billion to state and local governments across this flourishing nation.

The cost of rebuilding completely entire central and slum areas of some of our cities on a scale never before attempted, as promised by President Johnson, might be met in some small part from a few of these diverse and varied grants, since nearly half of them are addressed to urban problems.

But these are directed by law to specific projects, so there's little doubt the President's great additional plans will require great additional financing, also on a scale never before attempted for redistribution through federal aid.

Even on the present scale, the powerful flow of funds from Washington is changing the faces of cities and much that lies behind them.

Because it constitutes 15 per cent of all state and local revenues, it is changing their financial structures and exerting pressure on their organizational form.

Because it has come with a rush of new programs tumbling after old with no over-all plan nor expectation, it is causing unplanned and unexpected changes in the relationships between federal, state and local governments.

• • •

The pressure of \$13.3 billion is tremendous, and its by-product may be a new and as yet unclear form of federalism.

This area is described by Sen. Edmund S. Muskie, Democrat of Maine, as the "hidden dimension" of government. He adds: "We hear less talk about states' rights and more talk about states' responsibilities."

President Johnson also is interested in the relationships between the various levels of government. He has assured the nation that his commission on

Mr. Sypher, a life-long journalist, is the retired editor and publisher of NATION'S BUSINESS.



How do federal aid bosses really operate? Senator Muskie isn't happy over what his subcommittee finds.

the federal system will move to develop a "creative federalism to best use the wonderful diversity of our institutions and people to solve the problems, fulfill the dreams of the American people."

Senator Muskie already has had a look at some of these institutions and people, and has found little of that stuff that dreams are made of. He is chairman of the Subcommittee on Intergovernmental Relations of the Senate Committee on Government Operations.

In its continuing study of the federal system, the Subcommittee surveyed the men who manage the powerful flow of federal aid. These are not top-level policy makers. They are working, professional-level careerists who expect to be in government long after most elected officials here today have moved on.

Senator Muskie's Subcommittee asked the expert judgment of 109 of these federal aid administrators on 77 questions designed to disclose their operating techniques, attitudes and relationships with others.

They analyzed the answers and were disturbed by what they found.

With few exceptions, the bureau chiefs and division

TRENDS: RIGHT OR WRONG

heads entrusted with distributing billions of dollars of tax money were far more interested in protecting their programs (and thereby their jobs) than they were in the goals or the over-all needs of the communities or the nation.

Most of them were found to be men beset with fears, hostilities, indifference, suspicions, ignorance—all terms found in the Subcommittee's report. The Senators traced four behavioral themes recurring throughout the responses from nearly all 109 federal administrators. These describe most of the men who manage the money that is changing the nation. Here they are:

"Functionalism, the respondents' preoccupation with protecting and promoting the purposes of their individual programs, was the most important single conditioner of their comments.

"It is this norm that helps explain the aggressive defense of their programs' objectives. It is this norm that generates the special brand of politics—program politics—which successful middle management administrators so adroitly practice.

"Professionalism, or the deep commitment to the merit system principle and to the technical and ethical standards of the specialized group to which they belong... It is this norm that explains their attempts to reduce to a minimum the meddling of 'dilettante generalists' at any point in their administrative operations. And it is this norm that explains their difficulty in arriving at a balanced definition of the public interest as it applies to the state or metropolitan level.

"Standpattism, or the rigid defense of traditional practices, procedures and principles, is a theme found in a great majority of their answers. As the conservative defenders of administrative continuity and stability against innovating pressures from above, from below and from outside, these middle management officials could hardly be expected to indicate that present practices... are something less than sound and desirable.

"Yet this norm and its adherents must also be recognized as the major obstacle to any reform in the problem areas reviewed in this survey.

"The fourth behavioral norm—indifference, or the cavalier dismissal of serious questions and topics as being irrelevant or unimportant—was reflected in responses to every section. It stems in part from the ignorance that only the narrow specialist can display toward broader questions of management, policy and governmental operations. It stems in part from an acute awareness that their expertise is needed and that their administrative positions are fairly secure."

To find the roots of these attitudes and discover how the men who hold them hold their jobs, let's look at how a typical federal aid program might come into being.

First, someone becomes interested in tapping the

federal till for a project for which effective local response has not been found. Possibly none was sought, since "free money" may be used effectively as a part of the appeal for support. This interest may bloom at the scene, or in Washington.

Next, more interest is generated among those who would benefit by the proposal—special interest groups, politicians who see in it attraction to their constituents, citizens, professionals in and out of government who see the possibility of enlarging and enhancing their field of professionalism.

The idea may have originated among any of these groups. The support of all must be brought together into an effective coalition. The proposed project must be set up under law, since it involves the appropriation of tax money, which means it must be presented successfully as a national need to get the majority vote in both houses of Congress, as well as the signature of the President.

But despite this broad presentation, the project still is functional in its objective. It is aimed at a single purpose. And since that purpose is what attracted support, in and out of Congress, little consideration is given anything else, including the new program's effect on existing programs, or on over-all planning.

Once set up in law, the new project needs an administrator. Nearly always he comes from the civil service rolls. His on the job training has been in progress for years, and it includes expert knowledge about how government works.

He has the protection of the law, and it is to his interest to protect the law that set up his job. Thus he may become a lone wolf among other lone wolves, each directing his energy and interest to the program he administers and to protecting it from change. To help him he has the same interested elements whose support brought the program into existence. His skill at maintaining that interest is the measure of his skill at program politics.

• • •

This is a part of the civil service system that President Johnson would restructure. Others have tried. Senator Muskie's Subcommittee made several suggestions. But these, it said, would only lubricate some of the squeaks, not eliminate the faults.

In 1961 President Kennedy determined to coordinate the disjointed grants-in-aid programs. He authorized 10 (now 12) Federal Executive Boards to exchange information, coordinate approaches, establish liaison and to refer to the national level problems not solved locally.

In 1964 President Johnson, impatient with the boards' progress, called on them to generate greater coordination among federal activities.

Now Senator Muskie finds nearly 70 per cent of the administrators think the boards should be limited to exchanging information and other house-keeping duties.

Others had no clear idea of the duties of the boards. And some didn't even know they existed.

Program politics may be more effective than White House politics.

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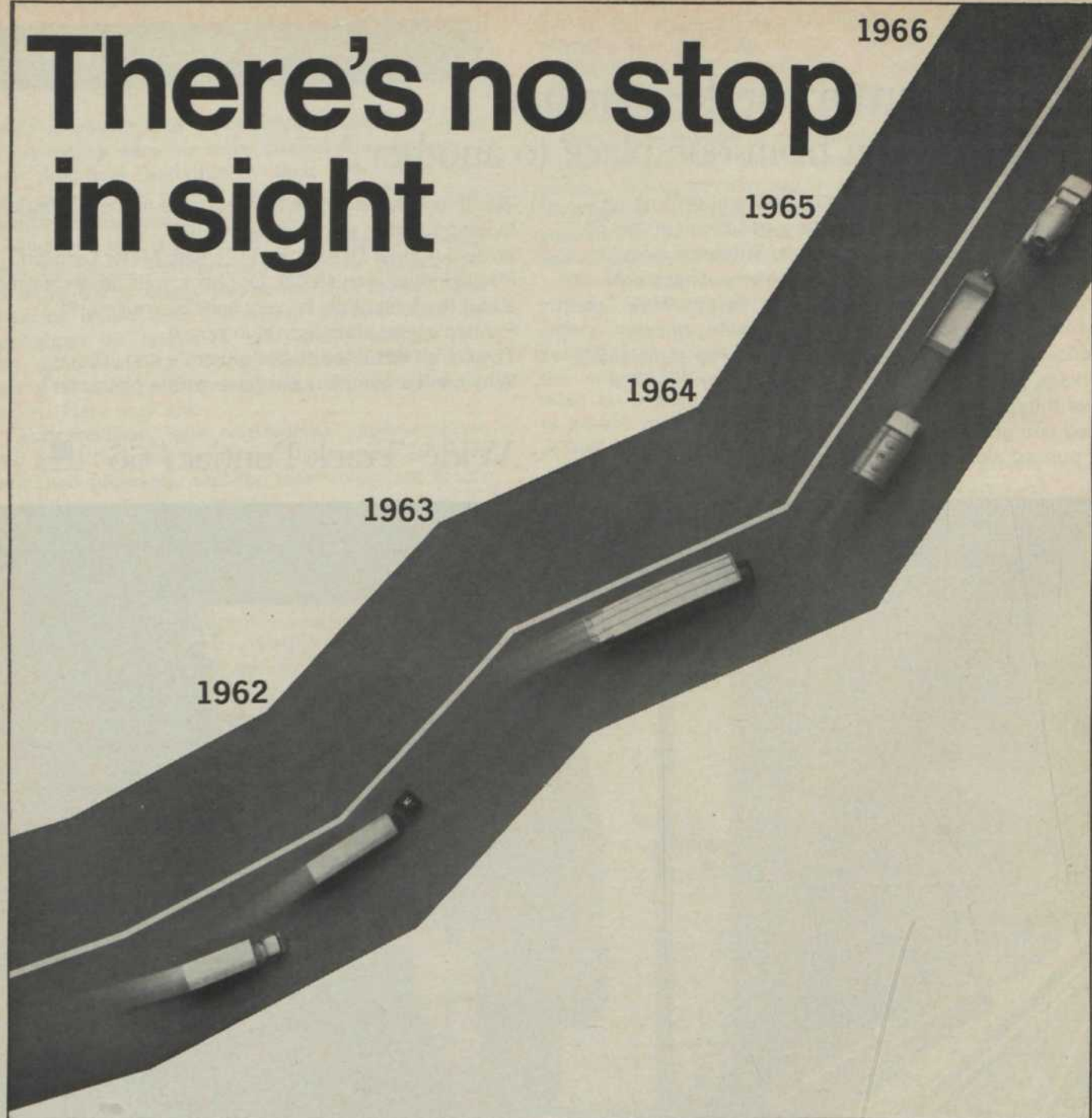
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WE CAN FIGHT INFLATION WITHOUT CONTROLS

An authority tells why the
federal wage-price guideposts
don't work and what will

How do we keep today's boom from skyrocketing out of control?

Businessmen and labor leaders agree that direct federal price or wage controls—or even indirect ones, such as the Johnson Administration's wage-price guideposts—can do more harm than good.

For a clear view of what can be done in the war against inflation, NATION'S BUSINESS interviewed one of the country's most respected and influential economists—Dr. Raymond J. Saulnier.

Dr. Saulnier was chairman of the President's Council of Economic Advisers from 1957 to 1961. He is now a professor of economics at Columbia University and acts as a consultant for several major companies and financial institutions.

Here are Dr. Saulnier's views of what's ahead, what's happening now and what to do about it.



Q. Dr. Saulnier, many people are worried these days about the danger of inflation. How serious do you consider this threat and what is the reason for it?

A. I think there is a distinct possibility that price increases will become more widespread, and they could easily accelerate to the point where we would have a troublesome inflationary situation on our hands.

Let me illustrate. The cost of living index has been rising in the last six months at the rate of about two and a half per cent a year. That is, if it were to continue for a year at the rate at which it has been rising for the past three

WE CAN FIGHT INFLATION WITHOUT CONTROLS

continued

or four months, we would have a two and a half per cent increase.

Of course, that's not very rapid inflation by the world's present standards. Throughout Western Europe you have increases closer to five per cent; and elsewhere in the world they are very much higher than that. But two and a half per cent a year is a high rate for the cost of living to be rising in the United States and, should it accelerate beyond that to, let us say, three or four per cent a year, we would then have an egregiously troublesome situation.

Our problem, now, is to prevent serious inflation from developing. And I would say we now have all the signals of inflationary danger we need to tell us that the time has come for genuine restraint. And I mean restraint in fiscal and monetary policy.

Inflation signals

Q. You say all the signals are there. What specific signals?

A. One signal is that wholesale prices are rising right now at around three per cent a year.

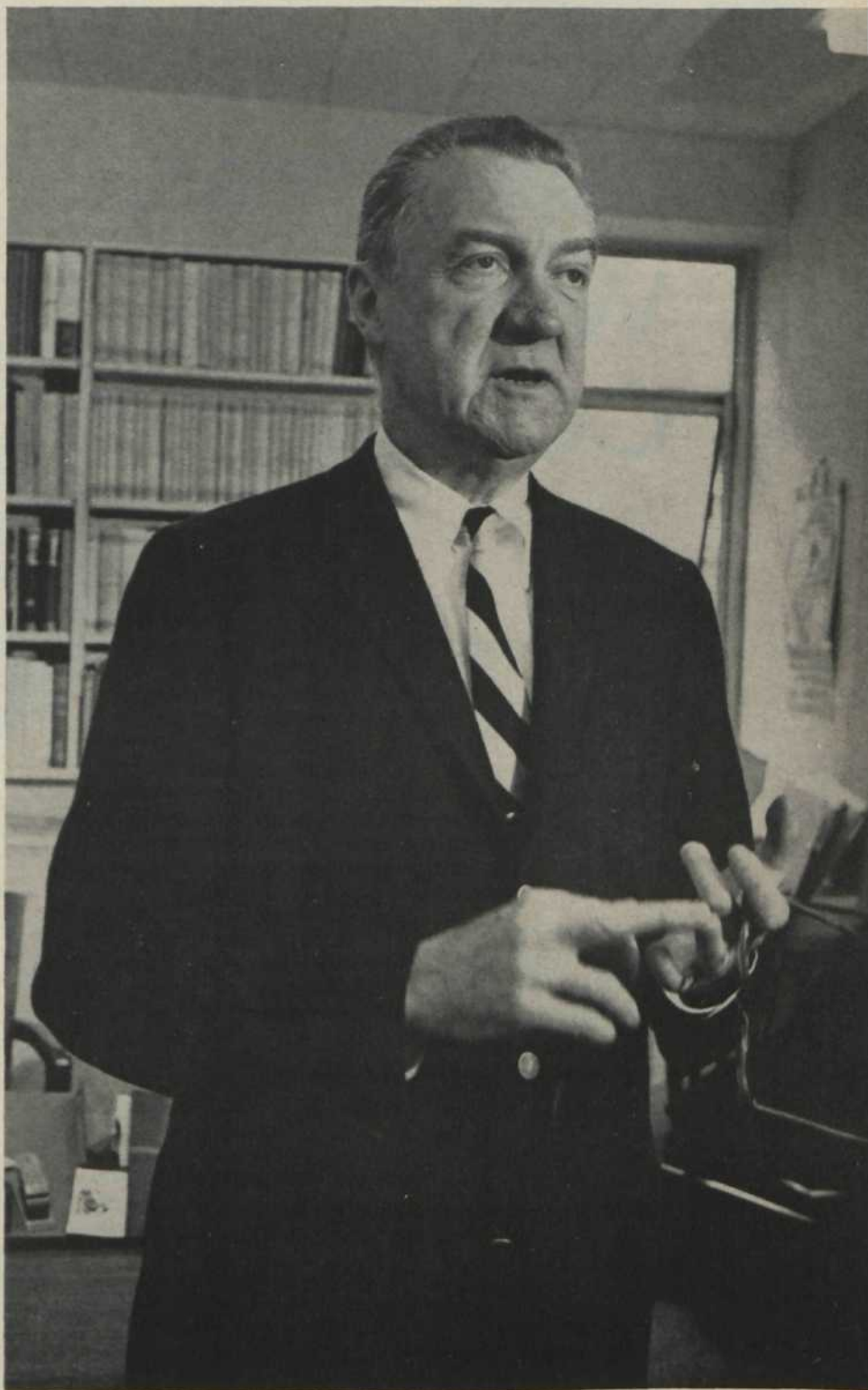
Q. They stayed very steady for a number of years, didn't they?

A. Oh, yes, they were just as flat as a pancake from 1959 through most of 1964. So this is a significant change that has occurred in the very recent past.

Another signal is the movement of prices of basic raw materials. In the past year the index of these prices has risen close to nine per cent. For some commodities this represents a recovery from abnormally low levels; all the same, a nine per cent price rise in 12 months is a big one.

The other signals are those that tell us something of the tightness of the labor market and the extent to which industrial capacity is being utilized.

Overtime work is more extensive even than it was in the Korean War period. The average length of the workweek for pro-



duction workers in manufacturing industries was actually higher in November than at any time in the past 20 years. The same is true of the index of help wanted advertising.

So the signals are that the supply of labor and, in many cases, the supply of goods is becoming short; that demand is continuing to rise; and this is already leaving its mark on prices.

Q. Why do you emphasize fiscal and monetary policy as being proper, rather than direct price controls?

A. Because it is through fiscal and monetary policy that you get at the causes of inflation. Direct price controls only treat the symptoms of inflation; they do nothing to reduce pressures in the economy but simply suppress the surface manifestations of those pressures.

Why guideposts fail

Q. Recently, we have been going through what appears to be a growing trend toward more and more controls on the economy.

A. Yes, we have, and I believe this has been a major misplacement of emphasis on the part of President Johnson's Administration. It appears that the Administration has thought, perhaps I should say hoped, that it could take care of its price problems by guidelines—by an occasional sally into the market place to suppress a price increase here and a price increase there.

Q. Jawbone control, so to speak?

A. A certain amount of jawbone control, yes. But at some point they will find that what they have to do—the only thing that will really be effective—is to restrain the increase in credit and to exercise more restraint in government spending. If they do that, they can avoid the necessity of direct controls.

Q. How do you appraise the federal guideposts for prices?

A. Guideposts have all kinds of weaknesses. In the first place, if

pressures in the economy are so heavy as to bring about fairly widespread price increases, federal guideposts are of little or no use. They simply are not equal to the task. Indeed, the only good thing you can say for guideposts is that they work pretty well when there isn't any real need for them. But in that case, you should leave the economy alone and let the price system work.

On the other hand, when you have real pressure in the economy the guidepost approach is futile. The whole history of price controls proves this.

And where only a relatively few price increases are involved, not only are the efforts to suppress them unnecessary but they are positively harmful. They prevent the price system from doing its job. Its job is to reflect market forces and thereby bring about shifts in resource allocation and production that are needed if our economy is to operate efficiently and to respond promptly to market conditions. Guideposts prevent these adjustments from being made.

Q. Such controls build friction rather than lubricate. Is that it?

A. Yes, they create frictions in the economy. They make it impossible for the market system to do its job.

Q. What causes prices to rise, Dr. Saulnier?

A. Rising prices mean either that costs are rising to such an extent that price increases are needed to compensate for them, or they mean that the demand for a commodity is so great that producers are able to get a better price.

Now, if a price increase is induced by cost increases, and if the government suppresses it, it is creating a squeeze on profit margins. This squeeze in turn discourages investment and production in that industry.

Q. So the incentives for businessmen, investors and individuals are dampened?

(continued on page 78)



WHY UNIONS DON'T LIKE GUIDELINES

Organized labor has been a long-time foe of government guideposts for wages and prices.

AFL-CIO President George Meany gave NATION'S BUSINESS the following statement which, he says, "clearly expresses the AFL-CIO's position" on the wage-price guidelines:

"There can be no single national wage formula. In a pluralistic economy, with thousands of diverse markets and industries, there must be determination by the employer and the union as to the proper wage level. Free collective bargaining in a free economy is the best method of determining wage levels.

"Wage restraints without price and profit restraints are obviously neither workable nor equitable.

"Neither wage nor price restraints are tolerable in a free society except in the gravest national emergency and then only when coupled with stringent restraints upon excess profits.

"We reject completely the concept that the national productivity rate is the only factor in collectively bargained wage levels. Other important, tangible factors—such as the cost of living, employer and industry profits, substandard wages and working conditions, inequitable wage and fringe benefit levels—all must be considered. . . ."

8 little-known ways to cut your tax bill

An expert explains how to save on this year's return

Most people overpay their taxes, and you are probably no exception. The main reason is they fail to claim all of the deductions that are legally available to them.

Most businessmen are well aware of deductions permitted for dependents, church contributions, doctor bills, state income taxes, state and local sales taxes, realty taxes and mortgage interest.

But there are many deductions that are missed year after year. They can put quite a dent in an otherwise exorbitant tax bill.

Here are eight possibilities most taxpayers don't know are available.

1. Separate returns savings

As you probably know, if you and your wife split your income on a joint return, instead of filing separate returns, you'll usually nail down substantial tax savings. Reason: Thanks to our steeply graduated tax rates, twice the tax on half of your income

is less than a single tax on all of it. But don't blindly assume that this always holds true. Where both of you earn about the same income, separate returns may save money. Here are some specific cases in point:

- Medical expenses: Assume that you and your wife each have an adjusted gross income of \$10,000, but you alone paid medical expenses of \$1,000. If you file a joint return, this \$1,000 medical expense must be reduced by three per cent of the \$20,000 joint, adjusted gross income. Result: A \$400 deduction (\$1,000 less \$600). On the other hand, if you file separately, you'll get a \$700 deduction (\$1,000 less \$300). Result: An extra \$300 worth of deductions.

So whenever the medical expenses paid by one spouse are substantially more than those paid by the other, figure the tax both ways—jointly and separately—before making a decision.

- Capital losses exceed capital gains: You and your wife each have about the same taxable income, and, in addition to the usual deductions, you've each incurred a net capital loss of \$1,000.

On a joint return, the capital loss deduction against ordinary income will be limited—for this year—to \$1,000. (You can, of course, carry over the other

\$1,000.) On separate returns, however, you and your wife will each be entitled to a \$1,000 capital loss deduction—against ordinary income. Result: An additional \$1,000 escapes taxation. What's more, you nail down the deduction now—offsetting ordinary income—instead of risking a chance that this capital loss will be partially watered down by being used to offset capital gains taxed at lower rates.

- Sales of property used in business: Again assume that the two incomes are just about equal. This time you have a gain from the sale of some business realty; your wife has a loss on the sale of some rental property. Normally, in this case, separate returns will result in less tax.

Here's why: On a joint return, your favorably taxed capital gain will have to be offset against her capital loss, which would otherwise be allowable as an ordinary deduction. With separate returns, you will wind up paying the capital gains tax (maximum 25 per cent) on your gain; your wife will have an ordinary deduction for her loss.

- State taxes: Many states with income taxes, though they have progressive tax rates and permit joint returns, don't allow income splitting. This means that a joint return may have the effect of mov-

Martin E. Holbrook, the author, is Associate Managing Editor of Prentice-Hall's Tax and Professional Letters, used by both taxpayers and the Internal Revenue Service. Mr. Holbrook is an authority in his field and a member of the New York Bar. Prentice-Hall has been a leading tax information source since 1918.



RALPH ROBINSON

ing the family income into a higher bracket than either you or your wife would be in if you filed separate returns.

Here's how you and your wife would make out if you lived in New York—one of the states whose tax law permits joint returns but not income splitting.

Example: You have \$12,000 taxable income, your wife has \$6,000. If you file a joint state return the family tax bill is \$1,135. If you file separately, you will pay \$587.50; your wife, \$197.50—total, \$785. Result: By filing separate returns, the combined tax bill is cut by \$350.

Moral: Unless your state allows income splitting on joint returns, or your wife has little or no income, you will almost always be better off filing separate state tax returns.

And, the fact that you and your wife file a joint federal tax return does not mean that you have to file a joint state tax return.

2. Claim All charity

Most taxpayers are aware of the fact that cash gifts to schools, churches, hospitals and the like are income tax deductions. However, many taxpayers fail to realize that there's much more to the charitable contribution deduction than just cash gifts. As a result, each year, untold thousands of dollars in valid tax deductions are

literally thrown away. Here are a few of the more common tax-saving opportunities which most taxpayers consistently overlook:

- You are entitled to deduct the out-of-pocket expenses you incur in performing volunteer services for your church and charities. One of the most important of these is the cost of transportation, including commuting, to and from your meetings, campaigns, Boy Scout and Girl Scout meetings and the like. The Internal Revenue Service (IRS) says you can deduct five cents per mile, plus tolls and parking fees.

Result: Unless you keep track of the trips to and from your church and for volunteer services, you're sending a perfectly good deduction down the tax drain. To see how it can all add up look at this:

Example: You and your family live in the suburbs, about 12 miles from church. Both you and your wife are quite active in church activities, making at least four round trips each week for committee meetings, choir rehearsals and a Brownie Troop meeting. Also, you, as a member of the fund raising committee, make 15 extra round trips during the year. Your wife makes another 10, in connection with church rummage sales, bazaars and other volunteer work.

Each year, you and your wife

chalk up 5,592 miles. Multiplying this by the five cents per mile cost gives you a deduction of \$279.60—and we haven't even counted a penny of what you contribute to the collection plate or any other charity.

The cost of buying and cleaning your wife's distinctive uniforms and accessories—such as choir robes and Brownie Troop Leader's uniforms, for example—also are deductible, since they're not suitable for general use.

- How to deduct gifts of clothing to charity: It's a rare family that isn't called upon to donate old or used clothing to its church or some other charity. You know that the fair market value of these gifts is a charitable deduction. But you're probably stumped each year because you're in no position to estimate the value. Here's some help from an actual tax case.

A doctor contributed used clothing to a school for a rummage sale and gave other clothing to a church. He couldn't specifically identify the articles given, and didn't have an appraisal made at the time of the donations. He estimated the original cost of the clothing as \$525—and deducted 40 per cent of that amount.

Result: Though the Revenue Service didn't go along with the 40 per cent figure, it did OK a
(continued on page 88)

ISSUES THAT WILL TIP THE '66 ELECTIONS

Here's why the upcoming contests might even wrest the control over Congress away from the President

There's a political cliff-hanger under way in Washington. The actors: the President of the United States and the Senators and Congressmen who must seek re-election and those who will run against them. The suspenseful question: Will Lyndon Baines Johnson be able to retain working control of Congress for another two years?

The opening chapters are already unfolding, but the finish won't be known until it is written by the voters at the polls next Nov. 8. In large measure it will depend on their reaction to two major issues—the war in Viet Nam and the munificences of the Great Society. In fact, the title of the cliff-hanger might well be "The Perils of Lyndon—or, Guns and Butter."

Not even the most optimistic Republican would predict that his party can wrest numerical control of either house of Congress from the Democrats in November. The G. O. P. is outnumbered 68 to 32 in the Senate and 292 to 141 in the House, with two House vacancies.

The bare figures don't give the true picture, however. On most issues a sizable number of Democrats, usually conservative Southerners, break away from their party position, while Republicans generally lose only a small number of their members. Thus, despite the two to one Democratic

majority in the House, most Johnsonian measures have been able to muster a margin of only about 30 to 40 votes. In the Senate the Administration usually fares better, though there have been some issues decided by a mere handful of votes.

Within this framework, there has been increasing evidence in the past few months that the Republicans have a good chance of seriously weakening, and perhaps even wiping out, the narrow working majorities held by the President.

Only a few months ago the Republicans were deep in despair, despite the tradition of gains by the out-of-power party in mid-term elections. The general feeling was that they would do well to hold their own in November.

They had emerged from the 1964 Goldwater debacle in a state of shock and with a badly split personality. Lyndon Johnson was riding high, pulling more and more people into his already wide consensus. The country was prosperous and Democratic legislators were getting plenty of ammunition for this year's campaign in the form of public works projects, business loans, poverty grants and other things for the folks at home.

But more recently, the battered Republicans have begun to pull up their socks and smile again. In some states strong candidates

like Charles Percy of Illinois, Mark Hatfield of Oregon and Robert Taft, Jr., of Ohio have agreed to run for Senate and House seats. Strong governors like George Romney in Michigan and James Rhodes of Ohio will run again, helping the party's whole ticket. National Committee Chairman Ray Bliss finally seems to be making headway in his efforts to put down internal feuding, woo the big city voters and mount effective registration and get-out-the-vote drives. Redistricting hasn't turned out to be harmful, as had been feared; in fact, on balance the benefits seem to be slightly in favor of the G. O. P.

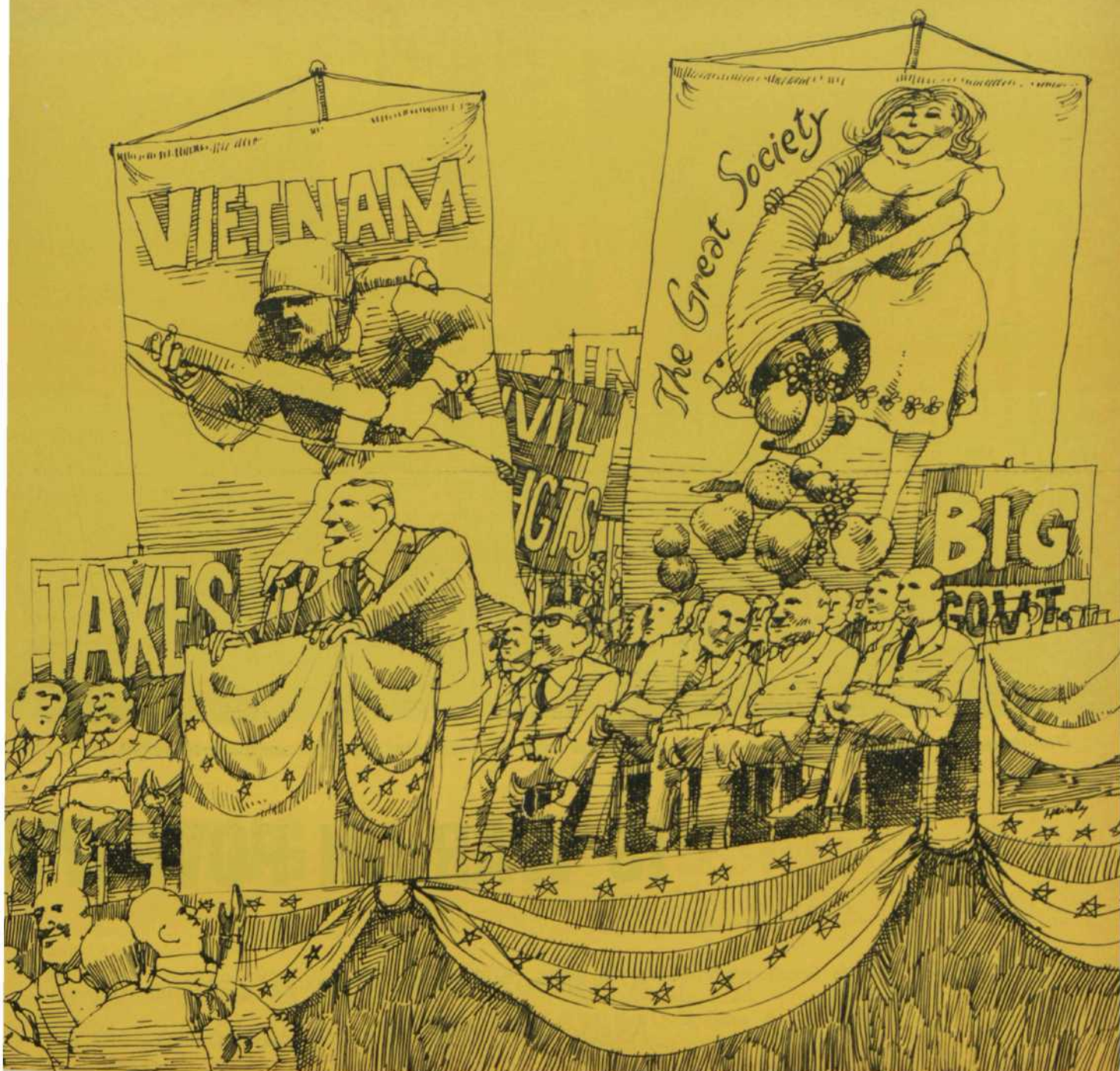
Swing to G.O.P.?

But perhaps most important of all, Republicans feel that the issues for 1966 have begun to swing in their favor.

It is a fact of political life that most Senators and Congressmen are elected by factors divorced from the big national issues. A candidate may have served so long that the voters return him almost by habit. A local machine may be so efficient in dispensing patronage and in getting out the vote that it can resist every assault. A local issue—a dam or racial clash or scandal—may be so vital in the community that it overshadows everything else. But in the marginal races—the 75 to 100 Senate and House contests where the vote is closest—the big national issues can easily be decisive. And as the vote tally on Johnsonian legislation shows, the Democrats don't have to lose many of those elections before they have lost effective control of Congress. Further, if the national issues become burning enough—as they well could this year—they could even sway the outcome in some of the traditionally safe districts.

What, then, are the big issues for 1966? Senators, Congressmen and party pros on both sides of the fence agree that two will be over-riding:

- **THE WAR IN VIET NAM.** Here the question is: Will popular uneasiness and dissatisfaction with the course of the war and the outlook produce a protest vote against Democratic candidates, or will there



JOHN HEINTZ

be enough rally-round-the-President feeling to bring out the pro-Johnson voters?

• **THE GREAT SOCIETY.** Here the question is: Will its expenditures for aid to education, public works, job training, medicare and the rest outweigh resentment over the way some of these programs—particularly the poverty program—are being handled, and the contribution high government spending is making toward the rising cost of living and tax burdens?

In other words, the main issues will not be the traditional one of

guns or butter but rather guns and butter.

Democrats will try to make their case on the positive sides of both issues. They will maintain that President Johnson is making the best of a difficult situation in Viet Nam, that the Democratic Congress, working with the President, has produced incalculable benefits for the nation and that another Democratic Congress is needed to produce more of the same.

Republicans will take the negative, sometimes sharply and sometimes subtly on Viet Nam—and

almost always sharply against the way the poverty program and other Great Society ventures are being carried out and their inflationary effects.

Other key issues

Republicans will hit other issues, too—some in the same fashion in every state, some in different ways in different states. Here are some of them:

• **RIGHT TO WORK**—Except in the big labor-vote districts, Republican candidates will attack Democratic candidates will attack Demo-

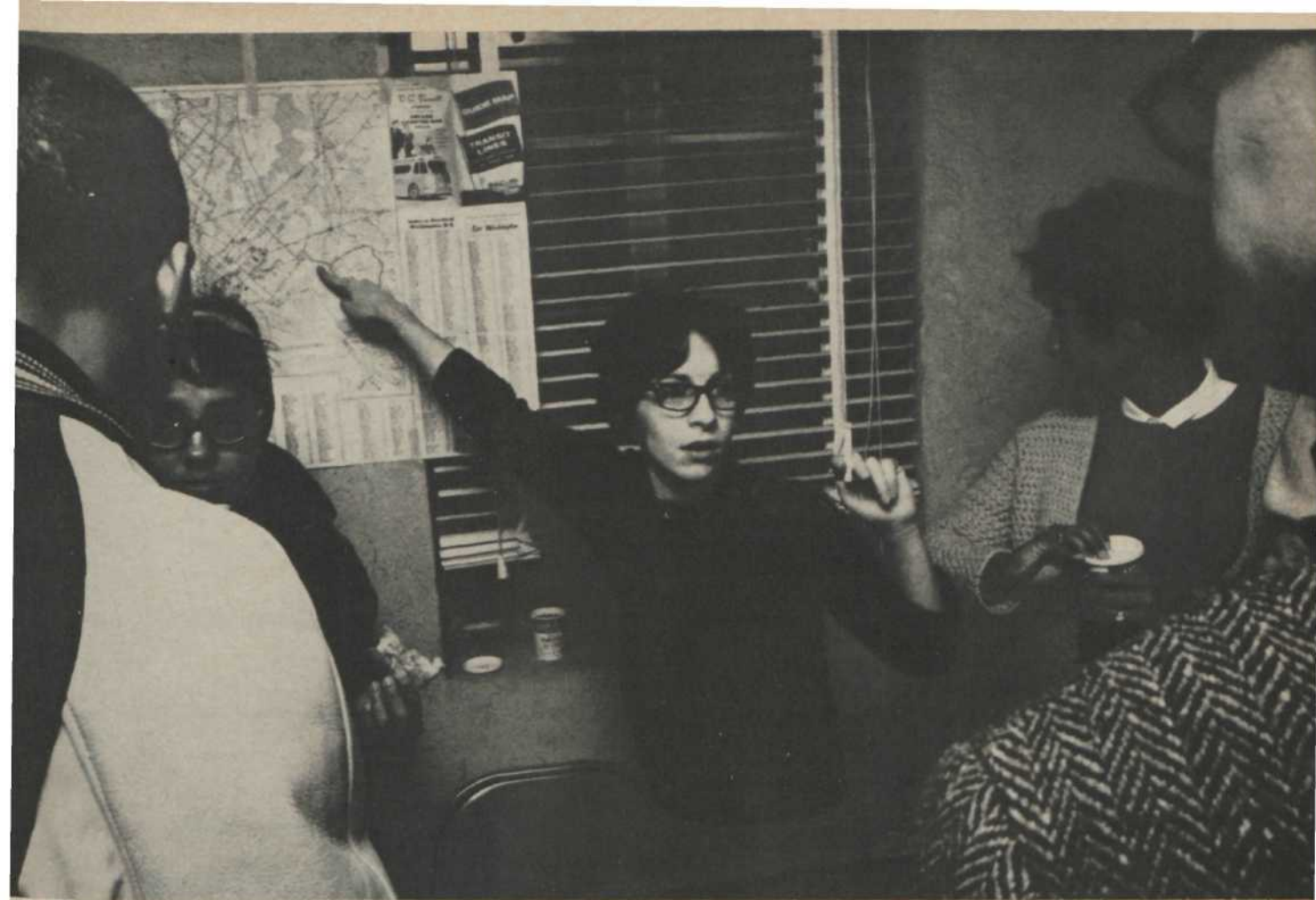
(continued on page 94)



Handbills recklessly accusing business of taking bread from the poor were posted in antipoverty offices.

IS WAR ON POVERTY

A Nation's Business investigation by Associate Editor Paul Hencke reveals a zealous national campaign under way employing poverty program workers and tax dollars to tell consumers what to buy, how much to pay and even how to boycott firms to get what they want



PHOTOS BY DENNIS BRACK

Many on the capital's antipoverty payroll helped to organize a one-day boycott of local transit company.

BECOMING WAR ON BUSINESS?

In some American cities the war on poverty seems dangerously close to becoming a war on business.

Consider these recent examples of this new and militant trend:

- In the front window of a "consumer education" office on a boulevard near the Capitol in Washington, tax-paid poverty fighters have plastered a handbill depicting the profit-bloated, horned caricature of a business leader in the act of snatching bread from the outstretched fingers of children.
- In a similar center run by antipoverty workers at another Washington address, an ex-labor lobbyist—whose salary also comes largely out of tax funds—proudly shows off an exhibit of well known foods, soaps and cosmetic products. She uses the items to warn low income shoppers against what she calls "the deceptive packaging practices" of some firms.
- In Baltimore, poverty workers on the public payroll accompany housewives on shopping field trips, urging them to buy at large chain stores and pass

up the small neighborhood markets they have traditionally patronized.

- In San Francisco, the director of a pilot project in consumer action freely concedes that "consumer advisers" in his federally subsidized, \$256,000 program get many of the buying hints they pass along to shoppers from cooperatives, the columns of the labor press and from the pages of product-rating consumer magazines.
- Back in Washington, a high-spirited band of social workers, civil rights activists and others on the poverty program payroll turned out on a workday recently to help the Student Nonviolent Coordinating Committee (SNCC) stage a city-wide boycott of the D. C. Transit Co. in protest against a proposed five cent fare increase. The boycott snarled traffic and cost the privately owned bus facility an estimated 150,000 fares.

Each of these incidents suggests that the escalating consumer education phase of the government's war on poverty is being fought with some questionable weapons and on *(continued on page 58)*

LESSONS OF LEADERSHIP: PART X

RIDING HIGH IN A NEW ERA

A conversation with C. R. Smith,
Board Chairman, American Airlines

When C. R. Smith took over as president of American Airlines, Inc., in 1934, its market value was about \$700,000.

His first major purchase of equipment was financed by the Reconstruction Finance Corp., an agency set up to handle disasters. By his account, he was in a "mathematically impossible" business—the cost of producing air transportation was more than it could be sold for. It's hardly a penny ante business today, either, with planes costing up to a cool \$6 million apiece.

In the years since, by shrewd financing, promoting development of better airplanes and pioneering new services, he built an air network he regards as the best in the business, though no longer the largest domestic carrier since the growth of United Air Lines, Inc., through merger.

Mr. Smith, board chairman and chief executive officer since 1964, tells how he did it in this wide-ranging interview with NATION'S BUSINESS, held in his modest seventh floor office on New York's

Third Avenue. With bluntness, dry humor and reminiscence, he discusses his operating style, profits, regulation, routes, outlook for the future, and approach to subordinates.

Mr. Smith, how did you get into the airline business?

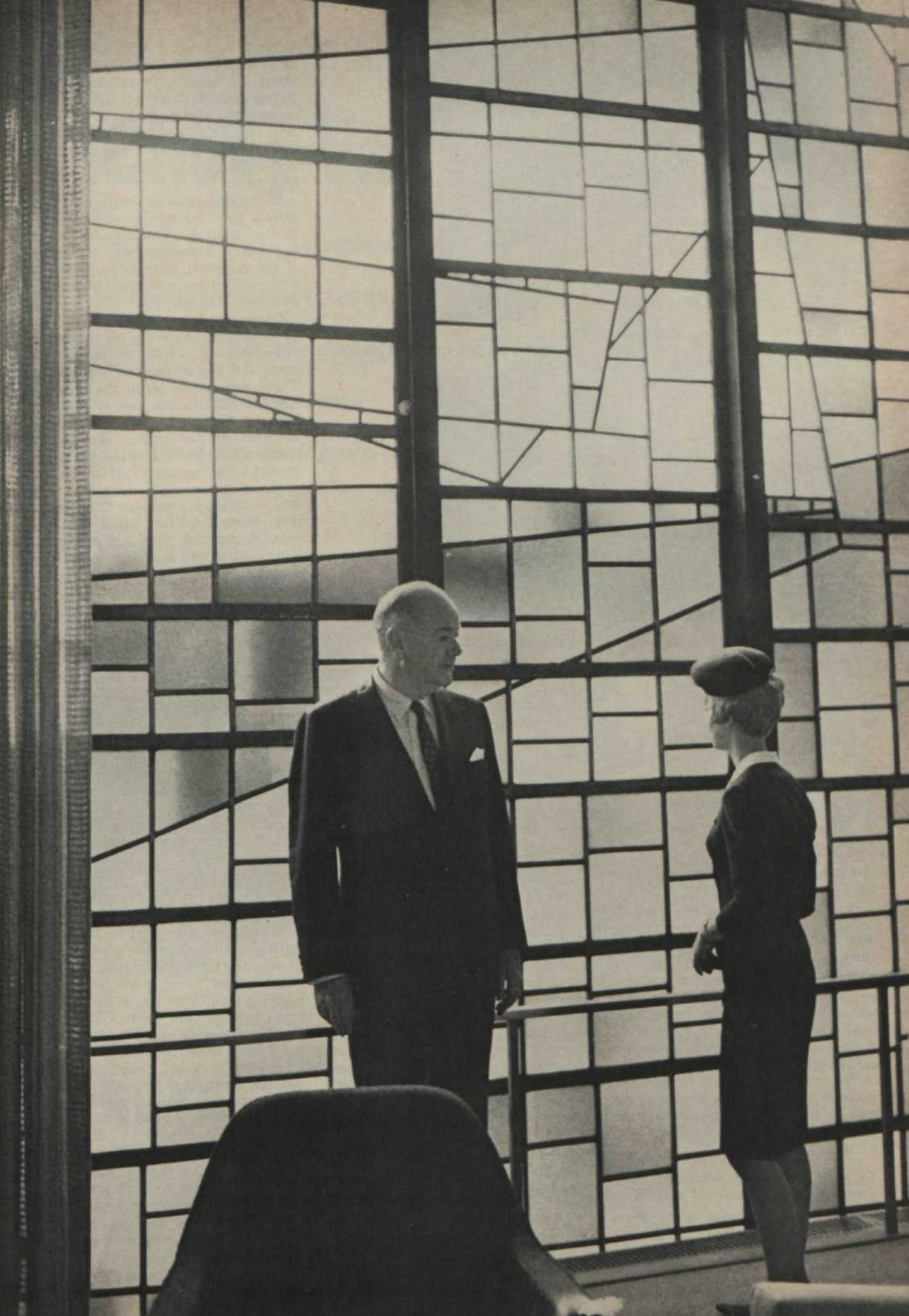
Completely accidentally. When I was a boy nine years old I didn't hang around the airport and want to be a pilot. These damn biographers who have their hero choosing a life career at the age of nine bore me.

I was in the Texas-Louisiana Power Co., and the gentleman who ran that bought an airline. He asked me to go out and run it, and I told him I would for a while. I got into the business, was interested in it and stayed in it. So there's the great judgment I exhibited in choosing my career.

Why did you stay in it?

Oh, it was a challenging business. First of all, it was brand-new. There was little history behind

Problem-solving in the executive suite usually takes a special wisdom acquired through long years of getting answers and results. Nation's Business brings you another in the series, "Lessons of Leadership," presenting the accumulated knowledge of respected American business statesmen and told in interviews with our editors.





C. R. Smith cranks out letters, speeches and crisp memos on industry's most overworked typewriter.

LESSONS OF LEADERSHIP *continued*

it. You had new problems and had to find new answers.

The most challenging thing you could have got into?

Yes, no doubt about it.

You built a major airline. How did you do it?

When we first got into passenger transportation in 1930, we were in a mathematically impossible business. The cost of producing transportation was more than we could sell it for.

We recognized that we could not make a living with the airplanes we had, so if we wanted to develop the business we had to have better airplanes.

To what extent did American bring about the development of the DC-3?

All you can do with a manufacturer is try to define his market

opportunity. We told Douglas that a larger airplane was needed, we'd be glad to cooperate in figuring out the best design, and if it worked out well we would be their first customer for it.

We bought the first 20 DC-3's.

Our participation in the DC-7 was more direct. We went to Douglas and said, "If you will design an airplane that will operate nonstop from New York to Los Angeles, we'll buy it. Why don't you get together a specification and let us see what it looks like?" And we started the first nonstop transcontinental service from New York to California.

The second area in which we provided some leadership was in selling the service. We recognized that our product wasn't going to sell itself.

The industry was well blessed with operating men—most people in

executive positions in the various airlines had come from operating departments. But few had recognized the need to merchandise air transportation, and not much was being done about it. It's a bit odd now to talk about an industry without a selling program, but that was the airline situation in the early days.

It became evident that an airline with a good operating record but a limited number of customers could go broke. American was the first of the domestic airlines to institute a planned sales program, including national advertising.

Of course, going back a bit, American in the early days was a collection of small corporations, controlled by a holding company. There were some 30 of them, each with an individual route or two. But not many of the routes joined up with another route. We had a houseful of routes but not an integrated transportation system. Some of the routes stuck out like a thumb and ended up nowhere; they were more often liabilities rather than assets. Compared with our principal competitors, we had the most disappointing looking system in the industry.


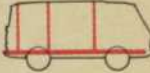


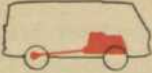
Our job was to get rid of the poor routes, get some more and better routes, join them together and come up with a system that made transportation sense. All of this, of course, took a very long time. Today, American has one of the better transportation systems in the industry.

Would you say American later led the industry in dropping the small cities while retaining the intermediate-sized towns which generate profitable interconnecting traffic, that is, for long flights?

The airline system of 1930 was built around the airplanes of 1930. The airplanes were small and they had limited range. When we were setting up the passenger system from Texas to California, one of our worries was whether we could go nonstop from Phoenix to Los Angeles, less than 400 miles. Many of the small towns on the early systems were there because we had to land often for fuel. Some of them did not contribute enough revenue to pay for the local ground installation, without regard for the cost of flying the airplanes.

At about the time when we were getting airplanes with longer range and had no need for so many fueling stops, Congress was authorizing the local service airline industry. Some of these towns were wanted

Chevy-Van's low price

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big wide doors  flat floor and
the dollar-saving power of a famous Chevy 6 



Curb-side doors available

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your secretary's
secretary.**

LESSONS OF LEADERSHIP

continued

by the local service carriers to round out their systems. They could serve them better because their airplanes were smaller. We transferred some of them. On the whole, these transfers have turned out well; some of the towns have become small cities, the local carriers have served them well and their operation has become profitable.

On the subject of overseas routes, it's been said that your disposal of American Overseas Airlines was one of the few mistakes you ever made. Have you had any second thoughts about that?

Somebody asked me that question the other day, and I said, "This reminds me of the guy who was a quarterback on the football team and he went into the barbershop for a haircut. The barber says to him, 'You know, I don't think I'd have thrown that forward pass Saturday.' And the quarterback says, 'I don't think I would have either, if I had until Monday to think it over.'"

On the basis of the situation at the time of the decision, we did right, I believe. On the basis of the situation many years later, the decision is debatable.

Was American in a position to acquire Capital Airlines back in 1961?

Capital Airlines was offered to American before United bought it. We took a long look at it. Many of Capital's northern routes duplicated our own, and we believed that we would get too little for our investment there.

It's been said that the key factors in American's success have been equipment leadership and financing acumen. Is that true?

American has gained some substantial advantages from being first with new and better airplanes. There were many of these opportunities when plane types were changing every five or six years. But the jet types will change less often, and future opportunities will be farther apart.

We learned about financing the hard way. In the early days we had difficulty in keeping enough money on hand to meet the payroll and had little for the purchase of new airplanes. But we were required to have new airplanes, and often we contracted to buy

(continued on page 82)



Searching for an industrial "vitamin?"

Move to LILCO'S service area

An industry situated in this vital, active environment with a growing population and easy access to major transportation facilities is bound to generate new business. It just makes sense.

That's how it is on Long Island.

The Nassau and Suffolk County market area has over 2,300,000 inhabitants. It has an unlimited supply of fresh talent provided by some 19 local colleges and universities. Our industrial customers have ready access to the facilities of the Port of New York and Kennedy and La Guardia Airports—gateways to major markets of the world. It has a plentiful supply of fresh water and low-cost gas and electric power, as well as an ideal climate for year-round living. And it has a population that lives, works, plays and fulfills all its needs at home.

There is no better way to re-vitalize your industry than by moving to dynamic Long Island. We will be delighted to help in your search for preferred locations. Just mail the coupon, send a wire or telephone our Area Development Manager area code 516 PI 7-1000, ext. 440. All inquiries held in strictest confidence.



Come to Long Island—the place to live, work and play.

Area Development Manager
LONG ISLAND LIGHTING COMPANY,
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Gentlemen: I would appreciate your assistance in finding a preferential industrial site on Long Island.

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TITLE _____ COMPANY _____

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BUSINESS: A LOOK AHEAD

Bankers can be swingers

(Credit & Finance)

Lifting business heads up

(Manufacturing)

Pre-selling future sales

(Marketing)

AGRICULTURE

More farmers power up to pull the switch on insects.

Agriculture Department says light traps gain as control device, lessening dependence on pesticides.

"It has reached the point where farmers are making the investment on their own," notes one long-time researcher on traps. They use near-ultra violet—black light—to attract flying insects to the traps.

Traps now used in Georgia, Carolinas, Kentucky, Indiana, Texas, Upper Great Lakes for crops including tobacco, cotton and vegetables.

Growers of shade tobacco crop in North Florida and South Georgia trapped 400 square mile area—biggest yet.

Purdue University experimenters study traps to combat green peach aphid which carries diseases to many plants. Agriculture Department will install setup to experiment with Arizona lettuce soon.

Some industries, including food processing and papermaking, install traps surrounding or inside plants. Some in pesticide industry support trend. Light can attract insects to chemicals, permit more selective use of chemicals.

CONSTRUCTION

New mass transit influences con-

struction patterns and land values years before first passenger takes first ride.

James H. Bowhay, economic analyst for San Francisco Bay Area Rapid Transit District, gives examples.

Communities along planned 75 mile system gear land-use planning to location of line, terminals. Offices, apartments, business sections take shape. One "central business district" laid out, property sold, in cauliflower fields.

Authorities get flood of zoning requests, even though only 10 miles are now under construction and first segment not to be opened until late 1968. Some rezoning has already taken place.

Land buyers, candidly speculating, acquire maps of eventual system.

Shopping center, already open to auto trade, located on site selected because of future terminal. Other businesses pick sites near terminals or plan moves.

One community passed bond issue for street improvements near station.

Another's assessor reports rising values along transit's path.

Large, declining area expects up-lift from transit, new freeway.

CREDIT & FINANCE

"The traditional pattern in finance—whereby mortgage lenders lend only on real estate, personal loan com-

panies make only small cash loans and commercial banks make only business loans—is breaking down rapidly," recently observed Keith Funston of N. Y. Stock Exchange.

Vivid example of trend is Standard Financial Corp., long in the commercial banking field. It formed Standard Prudential Corp., which has acquired two textile groups, studies other varied acquisitions.

The approach: Pick company with good earnings, potential, management; leave management intact; limit parent company's involvement to help with credit, research, consulting services.

Now there's a proposal to merge Standard Prudential, which has higher earnings, with parent Standard Financial. Says Mortimer Caplin, former Internal Revenue Commissioner and counsel to both firms:

"Now we're coming full circle, combining the stability of commercial banking with the dynamism of acquisitions."

FOREIGN TRADE

Latin America plans long-range drive to export manufactured goods.

Inter-American conference in Buenos Aires this month will study reports of successful governmental export promotion drives to see what governments can apply on a national basis.

Also likely is new U.S.-backed hemisphere-level agency to promote exports through trade centers in Europe, other direct methods.

Governments already strive to promote trade. Irwin Baskind, chief of Pan American Union's industrial development unit, reports his group helps through training, technical assistance.

Example: It works with center for export information, set up last year by Mexico's national bank for foreign trade.

U.S. officials note that Latin America has good manufacturing potential, needs exports as key to economic uplift. They speculate that know-how gained in overseas mar-



Value of shipments, materials handling equipment industry:

1958—	\$1.03 Billion
1963—	1.4 Billion
1964—	1.6 Billion
1965—	1.7 Billion (est.)
1966—	1.9 Billion (est.)

source: Commerce Department

(see Manufacturing)

ket development will improve business practices at home.

MANUFACTURING

Business in elevators and escalators is going up.

And in conveyors and conveying equipment, and industrial lifts, trucks and stacking equipment, and cranes and hoists—in short, the whole materials handling equipment business.

Dollar volume of shipments has gone from \$1.03 billion in 1958 to nearly \$2 billion estimated for this year, according to recent government projections. Already they seem low.

Another index: Continental Motors Corp., which supplies engines for 90 per cent of materials handling equipment manufacturers, including major producers like Clark Equipment Co., Hyster Co., Tow-motor Corp., Yale and Towne, Inc., and a division of Otis Elevator Co., reported 1965 sales a full 25 per cent over previous year.

Reasons given include the general trend to mechanization, overall industrial expansion and increased exports.

For the long pull Wall Street's Francis I. du Pont & Co. observes that "labor saving and cost saving equipment will always find a ready market and any field which caters

to this concept faces a bright long-term future."

MARKETING

Industry is spending a lot of good hard cash to sell a market that largely isn't there—yet.

Take water treatment. Even though communities and industry have made great progress in stream cleanup, manufacturers of treatment equipment have developed know-how far exceeding current demand.

They flock to conferences and set up elaborate exhibits, partly to compete for existing markets but partly to create new demand by showing what they can do.

Or take urban rapid transit. Transit experts say communities are slow to undertake massive new projects despite rising traffic congestion. Yet equipment manufacturers are hustling around with exhibits to prove that rapid transit needn't look and act like the Third Avenue El.

Exhibitors of equipment include one company that doesn't even manufacture it. U. S. Steel Corp. has a traveling exhibit now touring major cities showing advanced design of cars, stations, track, transformers.

These manufacturers use plenty of steel.

NATURAL RESOURCES

New process that promises to stretch nation's phosphate reserves has just gone into use. U. S. Bureau of Mines expects it'll be applied widely as booming investment in fertilizers continues in response to threatened world food shortage.

Bureau researchers at Albany, Oregon, adapted cyclone process, long used in plants like flour mills to separate dust from air. Blower feeds stuff into giant cone; air emerges at top, solids at bottom.

Western phosphate industry has a problem: Treated ore must be 31 per cent phosphorus dioxide for conversion into phosphoric acid. Thirty-one per cent grade is getting scarce. But there's three times that amount around in 25 per cent.

El Paso Natural Gas uses cyclone process for phosphates at Soda Springs, Idaho, to remove clay and silica impurities from "feed" or roasted and crushed phosphate ore. Impurities are finer than phosphate dust, go up and out with gases.

TRANSPORTATION

The Administration now pledges to help see that future progress in transport technology benefits shippers. President Johnson, in his Economic Report to Congress, singled out progress in railroads.

His report notes that it took four years for Southern Railway to win approval of low rates made possible by its Big John cars, which yield savings of \$30-\$40 million a year to consumers.

"No economy can be fully efficient if it takes four years to determine pricing for such new innovations." Greater economies, he added, will be achieved "as cost-oriented rates and flexibility in investment become more integral parts of regulatory policy."

Despite government regulatory tieups, railroads have reduced average freight charges 14 per cent since 1948, while Consumer Price Index rose 10 per cent.

Fleet Maintenance Manager Al Kantaros ran a 6-month cost comparison test between a gas engine and GMC's Toro-Flow diesel. The result: "Absolutely fantastic for a medium-tonnage operation!"



Al Kantaros is not easily convinced.

But when he is, he gets enthusiastic — especially when it involves more economy in the operation of his nearly 700-truck fleet. He's fleet maintenance manager of Best Coat and Apron Manufacturing Company in New York City, one of the country's largest uniform and linen rental services.

Kantaros' enthusiasm stems from a six-month cost comparison study of GMC's Toro-Flow diesel and a comparable gas-powered truck. He put the Toro-Flow in daily operation between Portland and Bangor, Maine, comparing its cost of operation with the former truck on the same route, a gas-powered vehicle.

Toro-Flow Saves \$1,000

"You wouldn't believe it," Kantaros smiled. "In those six months, the Toro-Flow powered job cost us nearly \$1,000 less to operate. Absolutely fantastic for a medium-tonnage operation!"

Kantaros said the Toro-Flow racked up a total of 32,697 miles in the test period, getting an average of 7.0 m.p.g. in fuel. There was no appreciable down time. However, the gas job went 28,476 miles on 4.8 m.p.g. with 17 days down time.

"Before we put the Toro-Flow on the route," Kantaros pointed out, "we had to keep two gas jobs available because of down time. This is a daily delivery and pickup route. That truck's got to be on



the road no matter what. The Toro-Flow never missed a day. We don't need two trucks anymore.

"Look at it like this," he went on. "Toro-Flow costs us less to operate. It's more dependable. And it cost us initially only about \$700 more. That means we're going to realize very big savings over the life of the truck. It was an excellent investment no matter how you look at it."

Adds Two More Toro-Flows

Since the test period of the one Toro-Flow, Kantaros has added two more to his fleet. One runs daily between Baltimore, Maryland and Seaford, Delaware, while the other has a route between Jersey City, New Jersey and Manchester, Connecticut. Kantaros already has compiled some startling statistics on both vehicles.

The Baltimore Toro-Flow, for example, has averaged a high 8.9 m.p.g. over a six month period. The gas powered truck it replaced averaged only 4.7. That figure surprised even the GMC sales representative in New York who first sold Kantaros on Toro-Flow power.

Three Hours Idling

"This is extraordinary," the salesman remarked. "Especially when you consider that the truck idles at least three hours a day. And a good portion of the operation was on a 7-day-a-week basis."

The third Toro-Flow averaged 7.2 m.p.g. compared to 4.1 on gas. That fig-

ure was over a three-month period.

Neither of the new Toro-Flows has had any down time to date, with the exception of routine maintenance.

Drivers Happy

"We're extremely pleased with these new trucks," Kantaros commented. "Our drivers like them, too. They require little



driver education because operation is very comparable to a regular gas job. They tell me they're easy to handle, comfortable and powerful. A driver doesn't tire so quickly because a Toro-Flow seems to take a lot less gear shifting on hills."

Kantaros' main attraction to Toro-Flow, however, was this. "Toro-Flow gives me all the advantages of a gas-powered truck. Lightweight, compact size, low cost — plus all the advantages of a diesel



in regard to economy and less maintenance cost. Toro-Flow has all these things in one engine."

Shows Confidence in GMC

Will he add more Toro-Flows to his fleet?

You bet. Ask Kantaros.

"I've already called the salesman and told him to order two more GMC Trucks for me right away. I have a lot of confidence in our trucks—not on speculation, mind you. I've made these vehicles prove themselves first."

Toro-Flow Can Cut Your Costs

Why don't you put Toro-Flow to the test, too? Long hauls or short hauls, no stops or a lot of stops, Toro-Flow can meet your needs and save you money to boot. Contact the GMC Truck man in your area. He can give you an estimate of just how much you'll save with a GMC Toro-Flow. Do it now while it's on your mind.



They wouldn't cry "Uncle"

It has never occurred to these boys that they were considered "disadvantaged" or needed jobs or other help from Uncle Sam





PHOTOS BY JOHN BURWELL

There's a group of rebellious teen-agers in Washington, D. C., who make their neighbors proud. It's because they're rebelling against conditions which, according to some, make them "underprivileged."

They don't protest by sitting down in traffic intersections. They don't have time for that. Neither do they have any truck with the multitude of government-backed programs set up in their neighborhood to lead youths by the hand into the world of work. They're too busy making money.

These boys call themselves "The Working Magnificents." They explain what they're up to in type-written fliers given to fellow residents of the Mt. Pleasant section of Washington. The fliers ask:

"What jobs have you found for these industrious young men in your neighborhood? They can rake your leaves, paint your porch floor, clean up your yard, shellac your inside floors, clean out your basement, wash and polish your car, get rid of your rats and roaches, and do any other such jobs. . . ."

The circulars have been a welcome sight to many who'd been trying for months to find someone to do odd jobs around their houses.

"It was almost impossible to get anyone to help out," Mrs. William T. Bennett of the Mt. Pleasant neighborhood recalls. "But these boys show up exactly when they say they will, and they work right straight through until they've done the job. They're very dependable, nice, polite boys. I've hired them several times. I really admire them."

Another Mt. Pleasant resident, a retired school-teacher, said she would sometimes ask men idling on a corner if they would like to make some extra

Despite an enormous unemployment rate among youths in their neighborhood, these boys have no difficulty finding work. Russell Wilson, above, applies a paint brush to a porch, while manager Roy Smith hands Mrs. Annette Jahr a job sheet. Below, other "Magnificents" shine woodwork.



FOR SALE or LEASE



4.5 level acres of ground (additional land available)
All utilities available — 18-ft. ceilings
unlimited supply of low-cost electric power

Available NOW 30,076 SQUARE FEET

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This plant is situated in Central Eastern Pennsylvania, where more than 100 new industries have located every year for the past 5 years. Here you will find:

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- 9 major truck lines—3 major railroads provide fast, efficient delivery.
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For more key details on this new building, in confidence and with no obligation, mail the coupon.

DONALD N. STOCKER, MGR., AREA DEVELOPMENT
PENNSYLVANIA POWER & LIGHT COMPANY
901 Hamilton Street
Allentown, Pennsylvania 18101

NB-1

Please send us details on the above building
and the area in which it is located.

Name _____

Company _____

Address _____ Phone _____

City _____ State _____ Zip Code _____

*Central Eastern
Pennsylvania*



WON'T CRY "UNCLE"

continued

cash. But after outlining what she needed done around her house, they would say "No." One protested that it sounded too much like work.

Once, she relates, she even called the U. S. Employment Service office. She was told the Service prefers to deal in more permanent type jobs. "I got the impression that I had some kind of nerve offering such low-status chores." The Employment Service's non-workers do nearly as well on unemployment compensation.

It has been only in recent years that people in Mt. Pleasant have had trouble hiring help. Much of the neighborhood consists of old row houses in various stages of disrepair. Called a "transition area" by urban planners, Mt. Pleasant, once nearly all white, is now mostly Negro.

Government statisticians figure Washington has a 47 per cent unemployment rate among Negroes aged 16 to 21. This figure is higher than that found in Watts, the Los Angeles section ripped by riots last summer.

While government programs grow

Neighborhoods like Mt. Pleasant are blanketed with tax-supported jobs-for-youths programs. But unemployment still remains high.

Beckoning Mt. Pleasant youths, for example, are the Neighborhood Youth Corps work-training program of the U. S. Labor Department's Manpower Administration; the Mt. Pleasant Community Action Program under Title II of the federal Economic Opportunity Act; the Job Corps; representatives of the Volunteers in Service to America (VISTA) program; the District of Columbia Center for Work Training and Employment Opportunity; the United Planning Organization's Mt. Pleasant center; the District of Columbia Public Welfare Department's training program; facilities of the Labor Department's Bureau of Apprenticeship and Training; the Washington regional office of the U. S. Office of Economic Opportunity; the Work Experience Program of the federal Health, Education and Welfare Department; the work-study program administered by the U. S. Office of Education, and miscellaneous antipoverty programs in remedial reading, literacy instruction, job training, employ-

Do your fleet drivers ask for more power on hills and expressways?

Then check our '66 Rambler American with its big new engine. More standard horsepower than Falcon! Valiant! Corvair!

We increased the standard horsepower up to 42%, '66 over '65. What other compact car maker can make *that* statement? Now our Rambler American has more heft under the hood than any other standard-engine car in its fighting weight and class! What can your men do with all this added power? Get onto expressways with an extra margin of safety. Climb hills easier. Pass slow-moving vehicles more quickly. Make their way through city streets with plenty of reserve power. In short, drive in all kinds of traffic with ease and assurance. This husky new engine

†Based on a comparison of manufacturers' suggested retail prices for lowest-priced 2-door sedans.

is smooth, quiet, easy to maintain. We carefully designed it with seven main bearings and eight counterweights to make sure of that! (Don't tremble. It's still a miser on gas!) With an ample powerplant like this, doesn't it make good sense to put your men in America's lowest-priced† car? See the sassy, smart new Rambler American at your American Motors/Rambler dealer. (He'll be glad to show you the surprising new Rambler Classic, and the luxurious '66 Ambassador, too.) Or, write Fleet Sales Department, American Motors Corporation, Detroit, Michigan 48232.



American Motors
where quality is built in, not added on.

*Custom
Concept*

IN BUILDINGS BY
VARCO



CUSTOM BUILDING NEEDED —VARCO GETS THE JOB

Matco Machine & Tool Co., makers of precision aircraft and missile components, was interested in metal buildings, but its plans for new facilities at Farmington, Mo., posed a big question:

Could any pre-engineered metal building system handle a structure — of critical and widely varying dimensions — that enclosed 27,000 square feet? Somebody suggested that one might. "Try Varco."

That was all Varco distributor Whitworth Steel Products Company needed. Employing Varco's unique Custom Concept throughout, Whitworth quickly and economically put Matco into just the building it wanted — custom engineering the big project down to the last specification.

Day after day Custom Concept is solving construction problems of all descriptions. If you have one, call your Varco distributor or write direct for the Custom Concept catalog.



Phone 501 JE 4-6030, Pine Bluff, Ark.

WON'T CRY "UNCLE"

continued

ment counseling and job development.

None of these government programs has anything to do with The Working Magnificents. What did bring the boys together was an awareness of the need for their energy and talents, and a mutual enthusiasm for camping and skin-diving. They also share a distaste for activities organized by others—especially lady social workers—to keep them busy.

It was mainly to get money for their outings that the boys formed The Working Magnificents. Each member puts a fourth of his earnings into a kitty to pay for the camp-outs. When the kitty gets big enough, they declare a weekend holiday and go off to enjoy the fruits of their labor.

They decided another fourth of the earnings should go to their manager, 17-year-old Roy Smith Jr.

"Roy's a real good manager," says Russell Wilson, a lanky, soft-spoken Magnificent of 15. "He takes job orders, goes out and makes estimates, rounds us up to do the work and keeps us excited about what we're doing. He keeps reminding us of the club motto: Responsibility, Reliability — and Recreation."

Roy has exhibited leadership abilities in other areas, too. He is a squad sergeant in Western High School's famed cadet corps, and he organized what he calls the Bachelors' Club at Western.

"It's for us guys who don't go steady," Roy says with a trace of embarrassment. "We get together with groups of girls and go on dates in a bunch."

Roy, who intends to put himself through college and become an electronics engineer, also works 15 hours a week as a hotel waiter. He used to spend time, too, knocking on doors to drum up business for the Magnificents. But that started cutting into his studies. Then he hit upon the idea of having the Magnificents who home-deliver newspapers slip fliers about the group between the pages of their papers.

Members of The Working Magnificents wear red armbands with a white WM design to identify them when they show up for a job. They also hand the customer a typewritten "Job Sheet."

The job sheet has sections

marked Name of Customer; Address; Work Performed; Date; Amount Paid; Customer's Signature and Customer's Comment. At the bottom is typed: "If you like our work, tell your neighbor. If you don't, tell us."

Customers like it

Roy keeps completed job sheets in a safe in his bedroom. He proudly takes out a handful of them to show a NATION'S BUSINESS editor some typical customer comments.

"The boys' work was excellent. We have more for them," says one. "AA++," the retired teacher has marked.

"Hard and willing workers," another praises.

"Good work! Good idea!" exclaims still another.

Roy says he's "kinda surprised" that people find The Working Magnificents such a novel idea.

"When we formed our group, it just seemed like the right way for us to do business," he explains with a shrug.

The biggest problem in the beginning was deciding what to name their group. Roy's next door neighbor, Ernest Moore, 15, hit upon "The Working Magnificents."

"It makes people smile," says Roy's 15-year-old brother, Nathaniel. "They think at first we're a singing group or something. But they remember us, because we try to live up to our name."

The club has grown in the past year from seven to 11 members, as work orders keep increasing. The boys work both during the week after school and on weekends. When a member has done enough work so his contributions into the camp-out kitty total \$5, he's entitled to wear the Magnificents' armband.

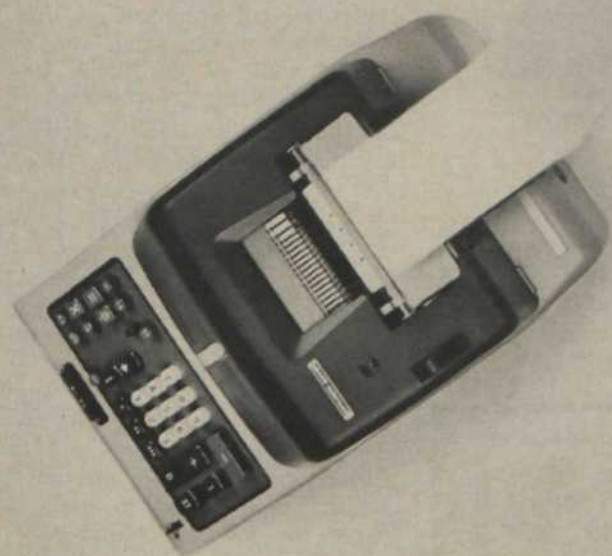
"Added incentive for new members," Roy comments.

The Magnificents may need to expand membership still more this summer, Roy noted, since he already has almost solid booking on grass cutting assignments alone.

"It used to be—before we formed the club—we'd cut grass or go on down to the grocery store and carry bags for people sometimes, if we felt like it," Russell Wilson recalls. "But mostly we'd just loaf around the house."

"But now I really look forward to this kind of work every day. You really feel like you've got something to give that people need. And we all like that jingle in our pockets."

END



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WAR ON BUSINESS

continued from page 41

fronts a good deal larger than those Congress had in mind when it passed the Economic Opportunity Act of 1964.

Businessmen are well aware of the plight of the poor; with other Americans, they applaud the accomplishments of those who are struggling to eliminate poverty. At the same time, businessmen can hardly accept unquestioningly some of the things that are occurring under the guise of a war on poverty.

The '64 antipoverty Act, for example, did not give poverty fighters the right or mission to subject businessmen to vitriolic public ridicule. And yet this is happening.

The Act did not empower poverty program operatives to propagate their own judgments as to what constitutes "deceptive" packaging. Yet this is happening—and at a time when Congress itself is still undecided about enacting so-called truth-in-packaging legislation.

The Act did not authorize persons whose salaries come from federal funds to direct customers into or away from specific places of business. Yet this is happening.

Nor did the Act call for massive mobilization of the poor for purposes such as boycotts, or buyers' strikes. Yet this is happening. The potential consequences of this development alone, when considered in the light of the racial tension in some cities, are sobering cause to question the course a government-initiated program can take, once begun.

It should be stressed that an anti-business posture is not the conscious intent of responsible anti-poverty warriors. From the press-war front office at the Office of Economic Opportunity in Washington, down to the most naïve neighborhood antipoverty worker, the expressed goal is the same: To show the indigent and uninformed how they can stretch their buying dollar, and to help them avoid the few merchants who exploit the poor through high-pressure salesmanship, high-interest installment buying, trick contracts or other devices.

It is in the execution of this objective that the program has jumped the tracks.

A poverty-war adviser working in a consumer information center

will step beyond simply giving poor people advice on how to draw up a family budget and tell them to avoid buying one brand because it costs more than another. Or the shopper will be urged to patronize chains, on the theory that the chains buy in large volume and are likely to charge less than a low-volume, independent retailer. This leads to naming chains and naming the smaller stores.

If a shopper is unable to read, or is slow-witted, the poverty program employee may go along to pick out items for her. In one instance, a young woman assigned as a consumer aide in Washington escorted an employed, middle-aged man into an appliance store. Once there, she talked him out of buying one kind of TV set he had decided on, and into buying another, lower priced model. This young woman told NATION'S BUSINESS that whenever shoppers ask her advice on buying washing machines, she always tells them: "Whatever you do, don't get a ----- I have one of those myself, and it's lousy."

Large-scale federally supported consumer education programs now are operating in six cities—Washington, Baltimore, St. Louis, San Francisco, Los Angeles and Providence, R. I.—and OEO officials say consumer-related services are available on a smaller scale in upwards of 75 other communities where they are currently spending \$24 million. Federal poverty officials admit that they don't know the exact number.

In some of the larger consumer centers, a help-seeker can get anything from hints on how to use federal food stamps to advice on planned parenthood (together with free contraceptive supplies). Legal aid, credit unions and other related services are frequently tied in, and one consumer office in Washington even sports a coffeehouse nextdoor. There the poor of the area assemble on weekends to hear poetry readings, a jazz combo and lectures on handwriting analysis.

Edna Johnson, director of Baltimore's consumer protection program, an activity subcontracted by the OEO through the Urban League, says the poor sometimes are more to blame than unscrupulous merchants for the buying fixes they get themselves into.

"Some of these people are trying to get something for nothing," she asserts. "They plunge into big debt apparently thinking they can get out of paying it. They know what

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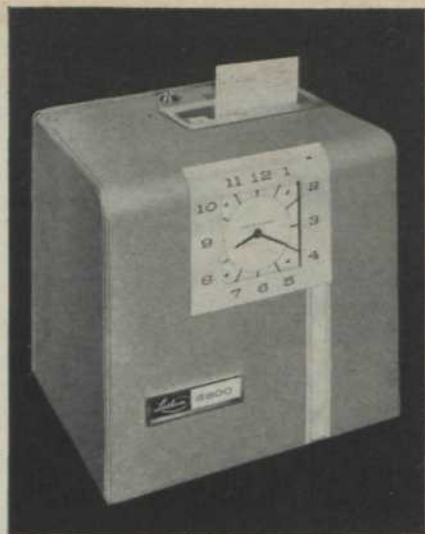
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WAR ON BUSINESS

continued

they are doing, but they do it anyway. Why, I had a man call up the other day and ask me what he should do about \$45 worth of parking and traffic violation tickets he had accumulated."

But Mrs. Johnson has equally critical words for merchants who prey on the gullible poor. She cites a recent case handled by her office in which an 80 year old Negro man purchased what he thought was a \$40 mattress, only to discover later that he had signed an order for a \$270 orthopedic model.

In some city neighborhoods, consumer advisers have set virtually no limits on the scope of their activities for and with the needy.

Washington is a conspicuous example of this open-ended operation. Poverty program personnel working under the United Planning Organization, the city's local agency for the federal program, canvass entire slum neighborhoods. They acquaint residents with the new services available to them and urge the poor to form their own units for concerted action against store owners and landlords against whom they may have a grievance, whether over store conditions, credit policies, inventories, rents or whatnot.

How to run a boycott

The boycott of the D. C. Transit Co. discloses just how potent such organizing efforts can be.

While the boycott was sponsored by SNCC, publicly paid antipov-erty workers throughout the capital left their regular duties to join in. They participated in the pre-boycott planning, posted and distributed leaflets announcing the boycott (and bitterly attacking D. C. Transit Owner O. Roy Chalk) and drove special "freedom cars" that carried hundreds of both low and middle income Negro and white residents to and from their jobs during the protest.

Various rider-strike command posts were set up around the city for the boycott. Tax-salaried antipov-erty workers, as well as SNCC representatives and unpaid volunteers, planned their strategy in military fashion on large maps of Washington which had been hung, war-room style, on office walls.

At one point before drivers scrambled for their cars, an other-wise soft-spoken social worker who

heads up UPO activities in Southeast Washington raised his voice to issue this order: "Don't forget, stop wherever you see people waiting for a bus and tell them, 'Don't ride D. C. Transit!'"

The man who issued the strident command—like most of those who were listening to him—is paid, at least in part, from UPO's federal input of \$4.7 million.

On the morning of the boycott, traffic moved at a slow pace through streets and intersections patrolled by specially assigned police. Arteries leading into Washington over its Anacostia River bridges were thick with automobiles and almost empty buses. Some buses and trucks owned by churches and other groups were pressed into emergency service. Many workers were late in reaching their jobs and others stayed home. By the time the day was over, SNCC pronounced the boycott a "90 per cent success," and began at once to lay plans for similar demonstrations.

Less dramatic, but equally vigorous, efforts to organize people for protest action are being directed by E. Pauline Myers, who runs a federally funded UPO consumer center in one of Washington's poorest districts.

Miss Myers is a stout, outgoing woman whose background is not in home economics, as you might expect, but in what she likes to call "propaganda." As early as the 1930's she was a Washington lobbyist for the Brotherhood of Sleeping Car Porters and the National Fraternal Council of Negro Churches. Among other things, she lobbied for the first fair employment practices legislation. It is in her office that the truth-in-packaging exhibit is displayed. It was loaned to her by a Maryland co-op.

Her manner, like that of many in the antipov-erty program, is engaging and warm. For the most part, living conditions in the area she serves are deplorable, with basements of some old buildings split up into two and even three apartments that rent separately for as much as \$60 a month. Many residents collect welfare payments. The crime rate is high. The Black Muslim movement, in Miss Myers' words, is "growing at a disturbing rate," especially among men who have prison records.

Her voice seldom changes in its soft and even tone, but she drops an occasional phrase that sounds jarringly militant.

"We're about to have confronta-

tions with some of the merchants," she said at one point, while being interviewed by a NATION'S BUSINESS editor. "We've had complaints about unsanitary conditions in one of the big markets in particular, and we are going to get the manager and some of our neighborhood people together here for a confrontation."

Crackdown on small merchants

The effectiveness so far of Washington's "confrontations" is not really clear. Some small merchants, when visited by delegations of neighborhood residents and anti-poverty personnel, have promised to do what they can to improve the appearance of their stores and to eliminate conditions deemed unsanitary by the complaining parties. Major changes are difficult for most because they don't have the capital.

Some small merchants are understandably bitter about being pressured at all. In many instances they have been doing business in low income neighborhoods for many years, have granted long-term credit to their patrons and have made other personalized services available—such as storing in their freezers turkeys and cuts of meat too large to be safely kept in their customers' antiquated iceboxes and refrigerators.

One store operator, who asked that he not be identified, complained to NATION'S BUSINESS: "I don't understand. Suddenly I'm being told what to do and what not to do. They want me to stock more and to spruce up the place, but I haven't got the money for that. At the same time, the poverty people are telling my old-time customers to use the bigger stores."

"The two things don't jibe. Do they want me here, or not? If they keep on encouraging people to buy somewhere else, I am going out of business for damned sure."

James Love, a well-groomed young high school dropout who now works as a consumer aide in a neighborhood near the Capitol, enthusiastically told how he had organized people in a five block area to protest unsanitary conditions in a corner grocery.

"Some of my people said, 'Let's close him down,' the youth recounted, "but I explained that we didn't want to run the man out of business—just get him to clean up his store, put in some new window glass and offer more variety

in the things he has to sell. We went over there and met with the man and he has done a few things. He fixed one of the windows, anyway. Took down a wooden partition that was keeping out light and put in some real glass."

Out in San Francisco, where Art Danforth runs the federally subsidized Bay Area Neighborhood Development (BAND) consumer action program, the picture is somewhat different. Low income Negroes and whites, including many Spanish-speaking immigrants, live in the three areas BAND covers. Mr. Danforth has a number of field workers on his total staff of 48 full and part-time people, but they stick to "budget and fraud counseling" for the most part and have not yet moved into any militant large-scale organizing.

However, Mr. Danforth feels that something along these lines will probably develop in time.

"When people have lived in frustration for years and years, as many of these poor people have, they finally want to do something," he says.

At centers in Hunter's Point-Bayview, North Oakland and the Mission District, BAND's consumer advisers offer people who phone in or drop in advice on what they conceive to be the best buys in "groceries, cars or whatever." Not all of the advisers are fully qualified to be doing this, Mr. Danforth admits, so they rely on the recommendations of product-rating consumer magazines and materials issued by cooperatives and the federal government. Some quote Sidney Margolius, whose consumer-oriented column has long been featured in the *AFL-CIO News* and other labor papers.

Mr. Danforth's last job, before he took over at BAND, was as educational director of the Consumers Cooperative Society of Palo Alto, Calif., and before that in community fund-raising. To get the necessary 10 per cent of local capital needed to match the 90 per cent available from the federal Office of Economic Opportunity, he turned to California Associated Cooperatives of Richmond, Calif. At one point he was accused of "trying to organize one huge cooperative among the poor of the Bay area," but he says this charge was baseless.

Help from business

Concerned business groups, including the National Dairy Council, a furniture house and a meat

firm, recently have been giving BAND staffers coaching in how to explain to people what to look for, and what to avoid, when they buy products in those fields.

Business has moved to help the poverty fighters in other parts of the nation, too, but the effort to date has been limited. In Washington, for example, some firms have donated kitchen equipment for use in homemaking instruction, canned goods for distribution at "food banks," sewing machines, fabrics, utensils and other items.

But the incongruities crop up even here. In a large, privately owned apartment project, for example, the owners provided space free of charge for a complex of antipoverty services, including an office for neighborhood organizers, a food and clothing bank and rooms to house field placement personnel of the U. S. Employment Service. And yet, some of this same business-donated space was used during the Washington transit boycott for hanging SNCC handbills in which the president of the transit company was pictured as a snarling "buslord" who demanded 30 cent fares from passengers at gunpoint.

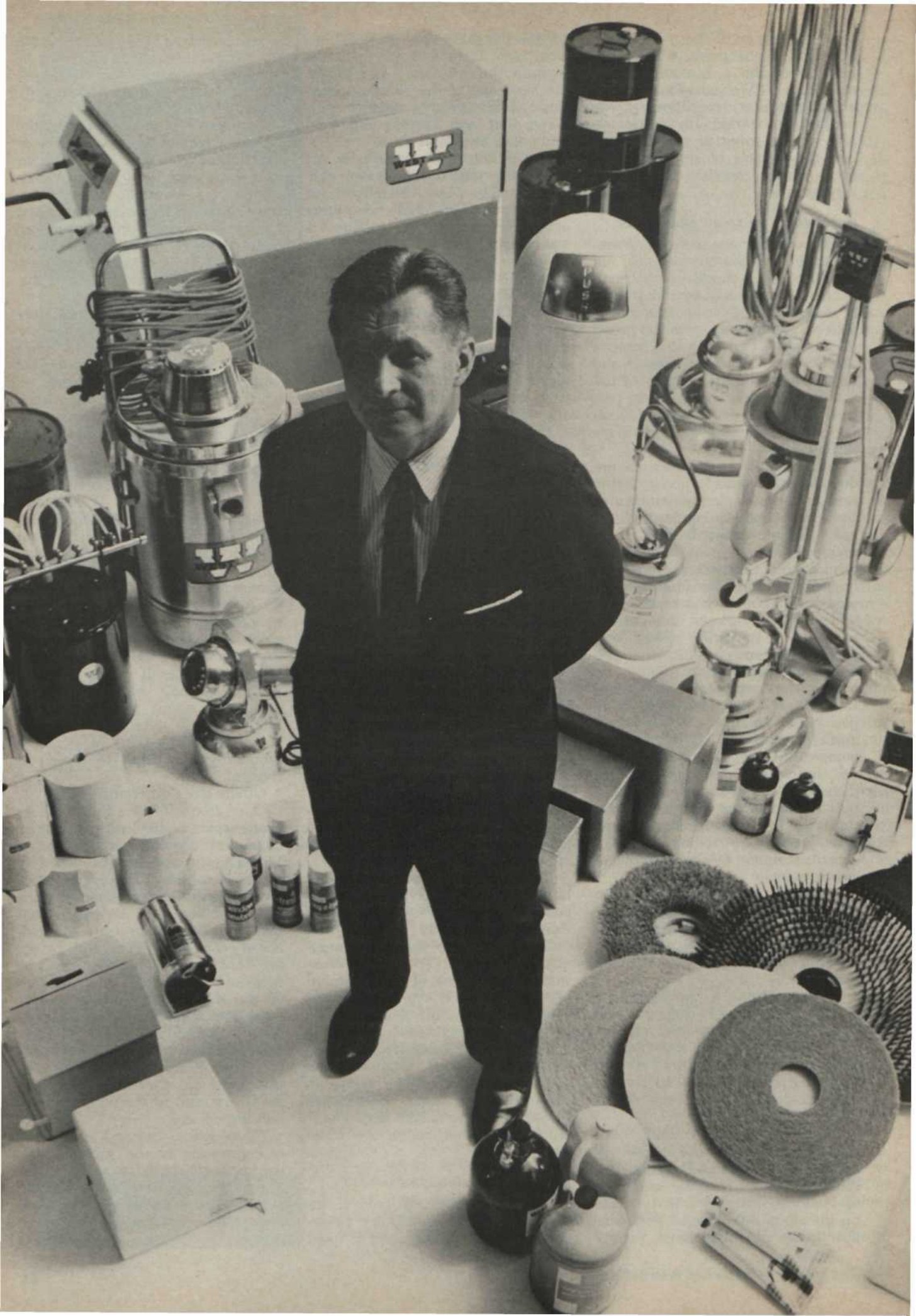
Some businessmen are surprised when they learn of the extent of the consumer services now being offered as a result of the Johnson Administration's war on poverty, and some admit to a feeling of "sheer fright" over the influences which people lacking a business grounding can bring to these activities.

Others react differently.

One group of businessmen recently spent a day with consumer education specialists in a major Eastern city, and found much they could do to help. These men came away concerned that some of what they had seen and heard did not make much sense in terms of hard-nosed economics ("They are teaching some people skills that aren't in demand," grumbled one member of the delegation) but impressed with the zeal of the antipoverty team. Before returning to their offices, they huddled to plan ways for putting together special training materials that could be productively used in the program they had inspected.

"You know," mused one gruff entrepreneur in the group, "this war on poverty isn't going to go away. The poor are on the move. I think we'd better get in there and make sure the job gets done right."

END



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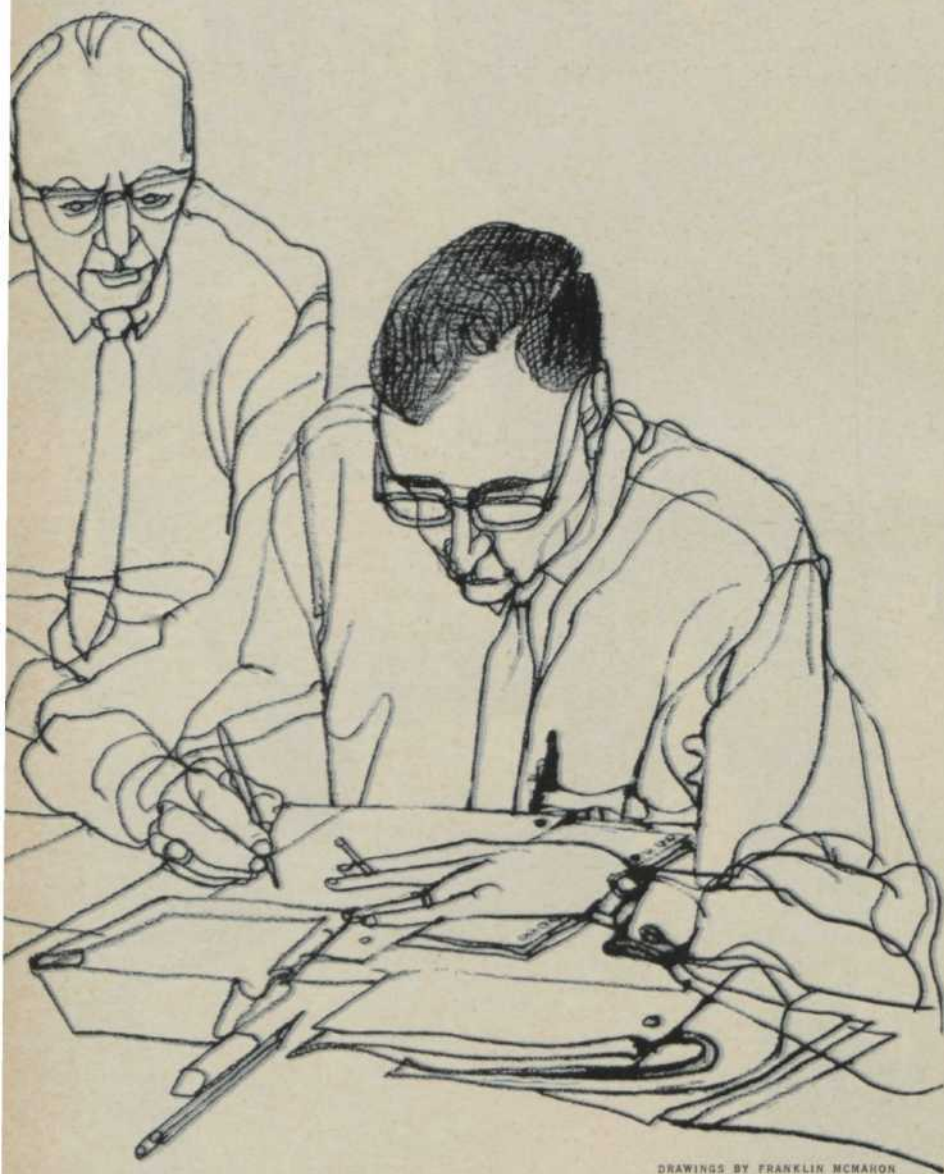
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DRAWINGS BY FRANKLIN MCMAHON

The new president of Beale Co. smiled one early November morning as he saw his controller approaching with the income statement for October.

The president knew October sales had been \$50,000 higher than those for September when profits had totalled \$3,509.

But when he glanced at the report, his face dropped. Instead of showing a whopping profit, the statement showed a \$5,015 loss!

The situation is one of many cases in accounting and financial policy that you encounter as an "AMP," a participant in Harvard Business School's Advanced Management Program for men about to become top executives.

You discover that Beale Co.'s controller had followed the commonly practiced accounting convention of absorbing factory overhead as part of product costs. The company had produced far below its normal volume in October, so the cost assigned for each item that was made in October lowered profits more than sales increased profits.

The president didn't know much about accounting concepts but he was sure of one thing: When sales go up and other things are equal, profits should go up, too.

He asked his controller why he didn't list all fixed overhead costs as operating expenses, not as part of the cost of products. The president unconsciously was suggesting

an alternative accounting approach, the so-called direct cost method.

Reworking his books along these lines, the controller was then able to list October profits at \$11,028. But it touched off a heated discussion among various Beale managers over the method to use for costing products and for measuring profit performance.

Approaches differ

Each viewpoint—and some new ones—have strong advocates among the AMPs as they analyze and discuss the Beale case. It soon becomes clear that no single approach to costing will be appropriate in an “across the board” sense within this single company, least of all in different types of companies.

Resolving such conflicts between various accounting concepts and the realities of the business is a vital responsibility of the general manager, claims Walter F. Frese, one of two professors who conduct this part of the AMP program. He sees accounting as the bridge between financial management and total management.

“The problem is that when accountants talk, hardly anybody can understand them,” Prof. Frese laments. As a result, many number-shy managers throw up their hands in despair and abandon the entire matter to the specialists.

“The results could be disastrous,” Prof. Frese warns. “The accountant should have a highly important advisory role in management’s operations. But the final responsibility is yours. It should not be abrogated. Too much is at stake.”

The abundantly energetic professor has spent much of the past 35 years trying to punch holes in the wall between managers and accountants. He doesn’t try to make managers into accountants, though. He merely wants them to see that accounting is far from being an exact science and that judgments must be made every day in accounting—judgments that determine how your firm will look to investors, labor unions, consumers and members of various management levels in your own organization, including your board of directors.

“Don’t let the accountant make these judgments for you,” Prof. Frese urges repeatedly during your 13 weeks in the Harvard program.

He has gained wide respect in the accounting profession for solving accounting problems at numerous private firms and government agencies.

Although some of the 160 AMPs in your session are top men in finance and accounting, representing both industry and government, most AMPs have had little contact with balance sheets and income and cash flow statements. They have risen to top management positions through other business lines, such as sales, public relations or production.

Prof. Frese holds well attended, voluntary afternoon meetings for AMPs who wish to brush up on the basics of double-entry book-keeping.

Accounting aids decisions

“I try to give just enough so that when you hear somebody talking debits and credits you won’t be scared off,” Prof. Frese explains in his opening class. “Also I want to show you the logic of accounting systems and how the mechanics of accounting reflect the inherent nature of business transactions. But I don’t want anyone to become so intrigued with the neatness of the accounting process that he loses sight of management’s role in making it a useful tool for decision-making.”

Prof. Frese lets you discover for yourself, through the case studies, what the “concepts” and “principles” of accounting are. He maintains these are really just common-sense ideas that any manager would eventually reach, even if he’d never seen an accounting textbook.

In the first case you study, many AMPs are surprised to find that the balance sheet doesn’t reflect the current market value of an asset. The primary purpose of the balance sheet is simply to serve as a periodic reading of the amount of the investment in the business, where it came from and what it was used for.

Another early case study puts you in the shoes of a small businessman named Charles Mavioli. You draw up a balance sheet for his firm and then lay it next to his income statement and a cash flow analysis to get the information he needs for making financial plans.

The income statement reports the total change over a given period in the owners’ equity, that is, the change in the capital supplied by stockholders either directly or

through retained earnings. The cash flow analysis includes a “where-got-where-gone” statement, which is an array of sources and uses of funds, summarizing the changes in net assets.

It becomes clear that Mr. Mavioli doesn’t need complicated records. His business is simple. For example, he doesn’t need accounting statements to control inventories. He can do that better simply



Prof. Frese crusades for a mix of logic and horse sense in accounting.

by walking through his plant. But the picture will change as his plans for expansion materialize.

Prof. Frese, who spent many years working on problems raised by the mechanization of control systems in the federal government, strongly believes these systems should be authored by line management. Technical help is needed, of course, but he thinks it should be kept strictly within the framework of top management policies.

Once systems are set up, a blend of human and mechanical controls is needed. You will be courting trouble, Prof. Frese warns, if you rely too heavily on mechanical controls and assume the system’s responsibilities rest solely in the accounting department.

It comes as a surprise to some AMPs to learn that—for some types of transactions—there is nothing illegal or unethical about taking

one accounting approach for tax purposes and another approach for your own financial planning and reports.

The legitimate objective of tax accounting is to record your operations accurately, within tax regulations, in a way that minimizes current taxes. The objective of your financial accounting is to keep yourself and others informed of your performance, the income you have earned and your firm's general financial condition. The two objectives often call for different types of measurement.

This difference is exemplified in research and development costs. Both tax and financial accounting practices permit you, under certain circumstances, to show R & D as an asset or an expense. But revenue from products resulting from R & D usually doesn't appear until years after the work.

One objective of financial accounting is to match costs with revenue during the accounting period in which the revenue actually comes in. So you may decide to show R & D costs as an asset when they are incurred and write them off as expenses against the later revenue. To hold down tax payments, the same R & D costs could be listed on tax returns as an expense of the current period.

The common financial accounting practice is to expense R & D costs currently unless you reasonably expect to recover them in the future. If your firm does a great deal of research and development, your decision on whether to defer could have considerable impact on your system of placing responsibility for costs throughout your firm and the way your firm looks to investors.

Of course, many small firms find it practical to pattern their financial accounting after tax regulations. For one thing, this reduces record keeping. But you would be foolish automatically to put the authority of a tax ruling above careful thought about what your special needs require for fairly determining your financial position.

Often a distinction is made, too, between financial accounting and management accounting. In this thinking, financial accounting is concerned with the preparation of reports for "outsiders" and management accounting covers internal re-



During a break in classes, Prof. Law, in center, tells AMPs about efforts to use computers to find factors most affecting stock prices.

porting. Although management accounting need not follow so-called generally accepted accounting principles, managers often adopt financial accounting procedures for their own records. These procedures usually are the most sensible ways to describe a company.

Accounting should motivate

Essentially, the purpose of management accounting is to help management make decisions and to compare what you wanted to have happen with what actually did happen. In doing this, the system should motivate employees to work toward company objectives. Among other things, this means the same measurement standards should be used in reporting results of performance as you used when you decided what the best performance would be.

You study the financial statements of Clarkson Lumber Co. which, as in most Harvard Business School cases, is a disguised name for a real firm. Clarkson's statements show the owner is making tremendous amounts of money, but can't pay off his bills.

Why does this profitable company need to borrow from banks, you are asked. How much does it need?

What should the bank's decision be? If it's negative, what other roads are open for Clarkson?

You prepare a where-got-where-gone analysis for this company to show you the sources of Clarkson's capital and what the owner has

done with it over a period of time. You calculate certain ratios by comparing various figures in the statements—a process called ratio analysis. You ask yourself, What do these ratios tell me about the Clarkson Co.? What trends do they reveal?

At best they provide clues, not answers. You see the company has expanded rapidly. This has taken a lot of capital, more than the company could generate internally. The owner hasn't grasped the fact that a banker could easily take control of his company.

Class discussion the next day finds the AMPs suggesting as usual a variety of solutions for the case, but no single one emerges as THE answer. As with most business problems, there are so many uncertainties and personalities involved that the best you can say is that one answer appears to be more appropriate than another.

The Clarkson case and the Sprague Machine Tool Co. case, in which you play the part of a banker dealing with a request for a loan renewal, emphasize earlier cases stressing the importance of making financial data responsible for financial decisions. In all of these, Prof. Frese urges you to search out the human assumptions and uncertainties behind the numbers.

This approach links accounting with other management aspects, especially with financial policy, which you discuss later in the AMP program under the guidance of Pro-

fessor Warren A. Law, a former banker.

You tackle key problems

But first, Prof. Frese takes you through discussions of vital accounting problems requiring management judgments. Some cases involve problems of associating costs with persons responsible for incurring them—a concept called “responsibility accounting.”

Other cases concern problems of establishing “transfer pricing” policies for companies having many divisions. How, you are asked, can you establish these prices so they will motivate the interests of the company as a whole? One answer lies in getting the participation of those whose performance is being measured and those who actually use the numbers in making decisions.

“People, not numbers, get things done,” Prof. Frese continuously reminds you.

Another management responsibility is the establishment of inventory pricing policy. Should you determine the value of your inventory according to the Lifo (last-in-first-out) method or the Fifo (first-in-first-out) method?

Or will some other method better describe the economics of your business? For instance, the maker of a custom-built product probably would have such a small inventory that he can determine the actual cost of each item.

The method you choose could make a big difference. When R.J. Reynolds Tobacco Co. went on Lifo, for example, its reported profits dropped \$14 million.

Yet the company was better off financially. Its cash position was strengthened. It preferred to pay lower taxes now and higher taxes later, assuming that a dollar today is worth more than a dollar a few years later.

Your method of depreciating fixed assets can have an even greater impact on your financial picture and will grow in importance as firms step up automation.

Because of wear or obsolescence, most fixed assets—land being the most notable exception—will be useful to a firm for a limited time only.

Depreciation lacks accuracy

Since a machine continues being a machine, there is usually no accurate way of telling exactly how much usefulness it has lost—how much it has depreciated—in any accounting period. Again, top management is faced with a cost allocation

problem with significant tax and income implications.

You study the case of a man who buys a steamship for \$446,000. He depreciates it over a 10 year period but ends up running his ship for 34 years. By then the cost of a new ship has risen far beyond what he paid for his old ship. This raises the question of the relationship between asset depreciation and asset replacement.

“The fact is we never really replace the old asset,” Prof. Frese comments. “We replace with better assets. Financial accounting looks at depreciation as cost recovery. Businessmen often see it as a means for providing for asset replacement.”

Depreciation policies have been significantly influenced by economic incentives worked into tax laws in recent years. Since 1954, for example, corporations have been able to use accelerated methods of depreciation in computing their taxable income—that is, they can take more depreciation in earlier years of an asset's life and less later. This keeps the tax money in the business longer.

More recently the Treasury Department has issued “depreciation guidelines” which shorten the time over which various classes of assets can be depreciated for tax purposes. This also speeds up the tax reduction and thus produces an even more favorable effect on a corporation's “cash flow” (the combined amount of profit and depreciation charges).

Some of your AMP cases deal with the policy question of whether to use the same methods of depreciation on your firm's financial books as you use on your tax returns.

If, for instance, you use the straight-line method on your books and the accelerated method on your tax return, you will show lower depreciation and higher profits on your books in early years, but higher depreciation and lower profits later. In this situation your auditor will also require you to recognize the tax reduction in the early years as a tax postponement and make you show it among your liabilities rather than allow it to “flow through” and increase current profits.

Growth boosts depreciation

Your future growth plans may affect your decision. Continued growth in depreciable fixed assets combined with use of the accelerated tax method brings greater and greater depreciation for the company as a whole. If on top of this

you use the straight-line method on your books, you will get a continuing buildup in the “deferred taxes” shown on the liabilities side of your balance sheet.

The recent investment tax credit, under which companies can deduct up to seven per cent of the cost of their assets from their annual tax liabilities, also poses significant accounting policy problems for management.

Under one approach you simply reflect the credit as a reduction in the tax expense in the year in which you take the credit—thus reporting higher after-tax profits for that year. Under another method, you reflect the credit in your reported profits over the lives of the assets.

While it prefers the second method, the accounting profession considers either acceptable as long as the method used is disclosed.

You examine reports from four competing firms. One firm, which uses the first tax credit method, reports \$20 million more in profits than it would have if it had followed the others and used the second method.

Among the roughest financial choices a manager must make are those in capital budgeting—whether or not to invest, for example, in expansion or equipment replacement. This involves selecting an earnings rate for your firm and applying an appropriate analytical procedure and a lot of judgment as to the reliability of your estimates.

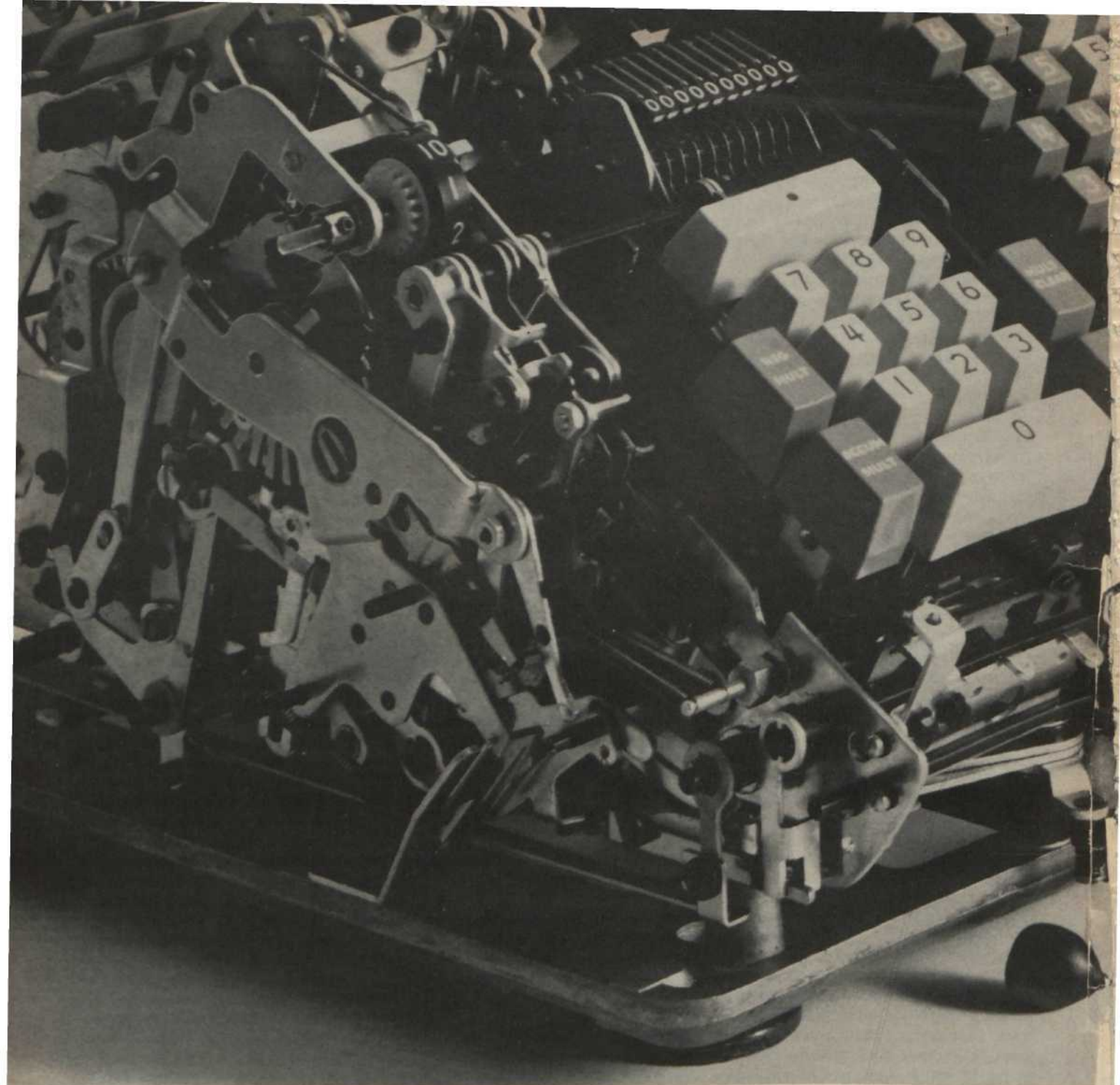
Harvard Business School professors teach “present value” methods for analyzing capital investments—as well as the more common techniques, like “pay-back.”

The present value method is a difficult concept for many non-financial AMPs to grasp. This method requires that you discount at a specified rate the earnings flow expected from a proposed investment over a future period to see if this total is more than the amount of the investment. If so, the proposed investment may be sufficiently attractive for further consideration.

Don't overlook other factors

Of course, Prof. Frese reminds the AMPs, non-quantitative factors could be so important that they sweep all numbered calculations off the table. The executive must stay alert for such factors.

“Without adequate policy direction from management,” Prof. Frese says, “the accountants can often end up swatting at flies while there are elephants around. Accountants



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PATTERN

continued

must not be blissfully unaware of the broader dimensions of accounting and its heavy reliance upon management's judgment, participation and integrity.

"On the other hand, the non-accountant often is unaware of his vital role in developing and applying accounting principles and of the subtle ways that decisions made by accountants influence his actions."

While individual managers sometimes leave it up to accountants to make decisions that should be made by top managers, the entire accounting profession is in the process of studying, reviewing and promoting accounting principles that will affect the ways in which executives can communicate with their stockholders.

Pressure for more uniform standards in financial reporting comes from investors, unions, security analysts and tax collectors—people who want more quantitative means for comparing the profits of one firm with those of another. Increased standardization is supported also by some managers who are concerned over the way accounting differences might affect comparison of their performance with that of managers of other companies.

The most authoritative voice on what constitutes "generally accepted accounting principles" is the Accounting Principles Board of the American Institute of Certified Public Accountants. The board's pronouncements increasingly influence the way corporate management makes out its published financial reports.

The board's program is based on a philosophy of self-regulation rather than regulation by government fiat. Prof. Frese, who serves on the board, believes strongly in the importance of maintaining this framework in which the accounting profession and management can work together to determine those procedures that are "generally accepted."

The board reviews comments from managers, security analysts and members of the accounting profession on matters under study and then issues opinions aimed at cutting down accounting alternatives that aren't justified by individual circumstances.

Departures must be noted

Starting this year, certified public accountants must disclose any de-

partures from these opinions when they "certify" to the fairness of corporate financial reports. You discuss difficulties met in adapting accounting principles to the constantly changing economy.

Many AMPs argue that some efforts by the accounting profession go overboard for uniformity, hiding significant differences between various companies.

Referring, for example, to the board's support of listing tax "savings" from differing depreciation methods as tax deferrals, they point out that some growing companies can reasonably contemplate a continued period of asset replacement and expansion. These firms, therefore, will have what amounts to a permanent deferral of taxes.

Similarly, Prof. Frese stimulates your thinking about other controversial areas of accounting that are of vital concern to management. These include the accounting for mergers and acquisitions, leases, pension costs, intangibles like goodwill and the consolidation of foreign and domestic subsidiaries.

There are two ways in which mergers can be handled under "generally accepted accounting principles." One approach is the "purchase treatment." Here one company considers that it has bought the other and puts the assets of the other on its books at their present fair value. This is usually measured by what the other firm could have gotten in cash for the stock it had issued.

The other approach is to consider the transaction a "pooling of interest." Here you bring the assets and liabilities of the two companies together at their former book values. Present criteria for distinguishing between purchases and poolings are vague, leaving a lot of room for management judgment.

In accounting for pension costs, the key question for management today is how to accrue as costs what your workers are earning now, but will not receive until after they retire. Present practices range all the way from systematic accrual as employees earn the benefits to recording the costs only when payments are made into a fund or directly to employees.

Another controversial area of accounting concerns the fast growing business of leasing. Some contend that leasing is getting an artificial stimulus from present practices under which it is not necessary to reflect leased property as an asset or the corresponding obligation to pay as a liability. Most leases are re-

quired to be disclosed only in balance sheet footnotes.

The Accounting Principles Board however, recently tightened its standards for disclosure of leases. Now, more than ever, leased properties that are essentially installment purchases—such as those in which the lessee is building up an equity in the property—must be shown in the balance sheet as assets and liabilities.

Underlying each of these major accounting issues are broad questions of the responsibility of management and the accounting profession to investors and others who use financial reports in making decisions. Prof. Frese stresses the importance of narrowing the number of unjustifiable variations in accounting practices.

"But it's just as bad to fall flat on your face as to lean too far backwards," Prof. Frese says.

"Too much emphasis on uniformity would dry up management initiative and would result in obscuring the individuality of different companies," Prof. Frese warns. "It is unreasonable to expect that all complexities of a business can be measured by a single annual earning per share figure."

He says users of financial statements should be more aware of the limitations of such reports and read managements' supplemental disclosures to keep the reported data in perspective.

"It is frightening to think of how much illusion there is to analyzing a business by trend lines and ratio analysis using just the reported figures," he says. "It's something like evaluating a ball player by his past batting averages while ignoring the fact that he just broke his leg."

You're in high finance

Prof. Law meanwhile leads discussions of a series of financial cases requiring top management thinking. One of the first cases concerns a Mr. Copeland, president of a marine supply firm, who goes to a bank for a loan "until I get squared away."

"Well, I've never seen a loan contract yet that runs until 'you've got yourself squared away,'" Prof. Law quips, rubbing his chin and looking at the ceiling. "One of the banker's problems is that he has to be a quasi expert on a lot of businesses. Do you think a banker should make any type loan to this man?"

There is no quick response from the AMPs, none being familiar with the selling of boat engines, which



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PATTERN

continued

are the backbone of Mr. Copeland's inventory.

"Well, to cut down the debate," Prof. Law says wryly, "let's consider the traditional questions a banker asks: Why does Copeland need a loan? Can he pay it off? What can the bank get if he can't pay off?"

You examine the company's inventory turnover. It averages 5.2 times a year. This would be a terrible rate for goods in a super-market, but you wonder if it's so bad for boat engines. You wonder, too, whether Mr. Copeland's two month average collection period on receivables is good or bad.

After weighing what information you have on such questions along with facts about Mr. Copeland's general credit background, the majority of AMPs decide it would be unwise to make the loan. Some bankers among the AMPs think the opposite, however, pointing out that a bank is, after all, in the business of lending money.

"Bankers would prefer to lend money to honest, churchgoing citizens," Prof. Law notes, "but there just aren't enough of them around to keep them alive."

Only one AMP thinks Mr. Copeland should abandon his search for a loan and sell stock instead.

AMPs seem optimistic

"In 1945 two out of three AMPs would have voted to sell stock," Prof. Law says. "It just goes to show that when you think bad times are coming, you want to share them. But when you think good times are ahead, you don't let others in on it."

He contends that 999 times out of 1000 it's cheaper these days for a firm to borrow money than to sell stock.

One advantage in selling stock is that you may be able to borrow later if you need to. But if you borrow now, the covenants of the loan probably would make you sell stock in the future—at a time when it may be even harder.

But the more stock you sell, the more risk you run of losing control of your firm. You also reduce your earnings per share, at least for a time. And the stock market rewards growth in earnings per share.

"We don't really know much about the stock market," Prof. Law claims during a discussion of whether dividends or retained earnings

have the greater effect on a stock's price. "There is much wetting of the finger and holding it up.

"About the best you can say is that an old dividend policy is a good dividend policy. Most stockholders expect to keep getting the same yield or better. But if there is any bias the American businessman has, it's against paying higher dividends."

Prof. Law lurches backward with a laugh as several AMPs challenge him on his last remark. He then explains that he thinks businessmen would rather plunge money back into their company, partly because they like big companies.

How to get rich

"You pay the janitor so much, and it follows that the guy on each higher level must make a little more than the one below," Prof. Law elaborates. "So the bigger the organization, the more the president stands to make in salary.

"Of course, the stockholder doesn't care how big the company is. He just wants to get that \$6 per share."

Prof. Law admits that he has some biases of his own—against, for example, rights offerings and an overly strict application of the general theory of capital budgeting.

Since the right to subscribe to a given number of new securities is usually made at a price below the normal market price, rights offers force a person to make a decision over whether to reinvest in the company or to sell his right.

"The people who don't do anything about rights offers—the widows and orphans who inherited your stock—are the ones you really hurt when you offer rights," Prof. Law says.

The weakness he finds in the capital budgeting theory—that is, that you should make every investment that yields more than your cost of capital—is that it says nothing about your personal horizon.

"In the long run, it's true that this type of investing will work out to the corporation's benefit," Prof. Law submits, "but, unfortunately, in the long run we're all dead." **END**

(Next month: AMPs examine the responsibilities of general managers.)

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So your employees don't like you

There are bound to be some; here is what to do about it

It is probable that not all the people who work for you like you.

In fact, some of them may even hate you.

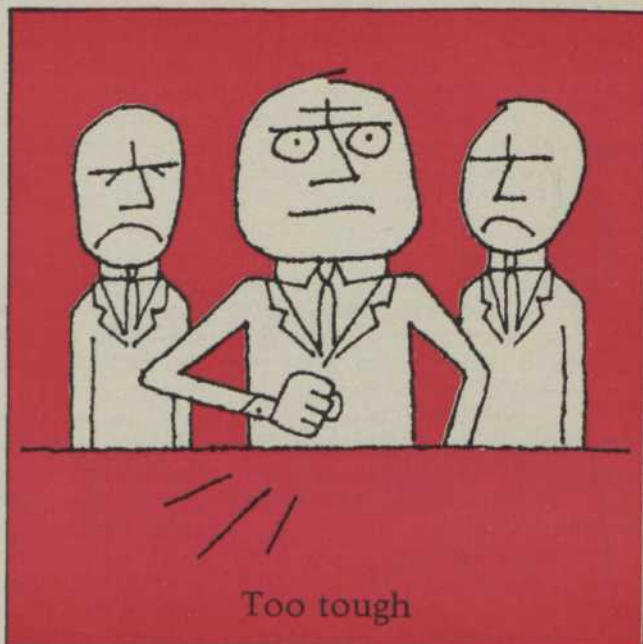
So what?

So this: If you are disliked too intensely by your employees, it can thwart your profit goals. At best, the fervent boss-hater is apt to vent his feeling in mediocre performance. Or he'll expose the boss, the company, the product—or all three—to tongue-lashings before the company's various publics. At worst, the boss-hater may resort to stealing or sabotage, as did one assistant controller who failed to call a serious error to his boss's attention in the hope it might get him fired.

A big advantage of being liked by your people is the insurance it provides against these dangers. Another is that it makes life more pleasant for all concerned. A third is that genuine affection often motivates superlative performance.

But, as consultant Ralph Steere points out, the back of this shiny coin may be tarnished. Mr. Steere sees danger in the manager who is too well liked; he could be sacrificing hard profit objectives at the altar of popularity.

"It is only natural for a boss to be disliked," Mr. Steere asserts. "If he's doing his job, a prime task, sugarcoated or not, is to prod his people to think and work harder. What's more, he is constantly called on to make tough decisions, often favoring one subordinate at the expense of another.



One man winds up happy, the other disgruntled. No way to win a popularity contest.

The sensible middle road

A businessman thus seems to face two convincing arguments:

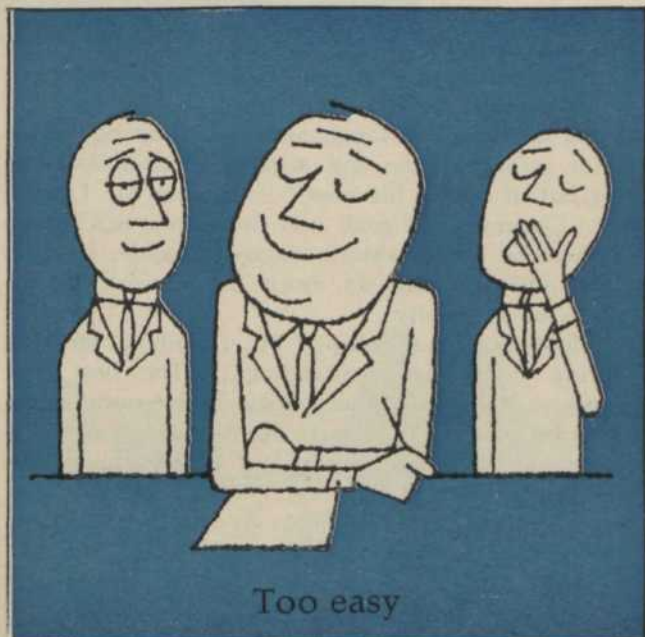
1. Don't make your people hate you.
2. It's no good if your people love you.

Actually the trick is to steer clear of extremes and to pinpoint behavior that provokes antipathy. This is not easy to do. Many vigorously hated executives are unaware of the rancor they provoke, and equally oblivious of the irritants involved. Prudent subordinates keep their true feelings a well concealed secret. It often takes objective, determined self-examination to bring deep-seated causes of dislike to light. In general, these causes arise in instances:

- Where the boss is unreasonable, unfair, inconsiderate.
- Where the subordinate's antipathy is self-generated or due to unfortunate circumstances.

Boss-generated hatreds may be easier to water down than those that are self-ignited. But neither kind is beyond repair.

"If you manage people," says Mr. Steere, "step one is to resign yourself to being disliked by one or more of them. Step two is to find out why, and take corrective action where the need is indicated."



In preparing this article, employees in managerial, supervisory and professional jobs in a variety of industries and business were questioned about whether or not they liked their bosses. They were assured of anonymity in their answers.

Following is a sampling of the "whys" offered by managers who confessed to disliking their bosses:

Purchasing agent: "He never bends. Every move he makes is strictly by the book. I feel like I'm in the army again."

Product manager: "He doesn't respect my privacy. He'll telephone me on vacation, on weekends, even late at night. And half the time on trivial matters."

Engineer: "If I come up with an idea, it's either no good, or he's heard it before."

Systems analyst: "He overloads his staff, but I'm not complaining about that. What burns me is that he manages to go home on time almost every evening."

Engineer: "The juicy projects go to his fair-haired boys. The rest of us get the leftovers."

Sales manager: "He sets impossible goals that he could never reach himself."

Personnel manager: "His instructions are verbal and often muddled. But get it wrong, and it's always your fault."

Research chemist: "First he builds you up with an important assignment. Then he'll stay on your back every step of the way, controlling your every move so that you feel like a child."

Assistant controller: "You're damn right I hate his guts. I do the brainwork. He gets all the credit."

Some managers, of course, had multiple grievances. Although no definitive judgment could be made in any of the cases without a depth probe, the general impression given was that most complainants were at least partly in the right.

One heartfelt, and frequently repeated, gripe was the subordinate's conviction that he was underpaid. Valid or not, this certainly warrants the boss's attention.

Extreme feelings on this subject can lead to animosity in its worst form.

When hate is unjust

"Hate is of all things the mightiest divider," said the poet Milton. Warranted or not, if carried to extremes it is capable of fragmenting a profit effort. Here are typical situations where hatred springs from a subordinate's weakness, his refusal to face reality or a set of unfortunate and unavoidable circumstances:

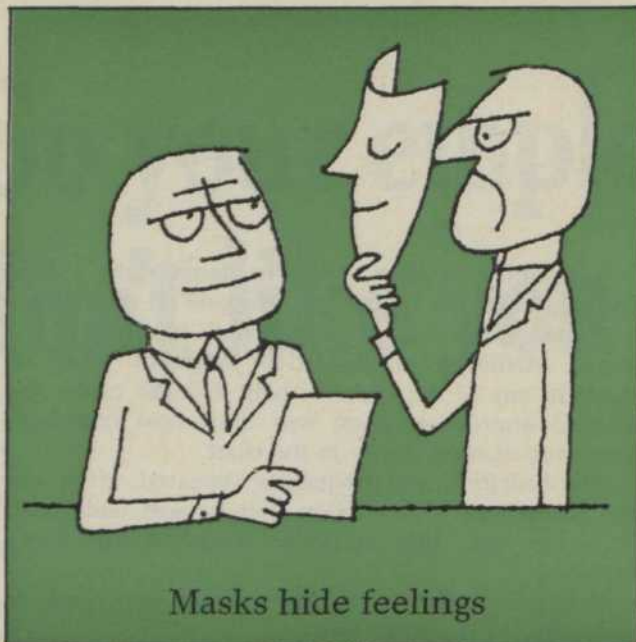
- A mediocre performer feels harassed because his boss refuses to compromise his high standards of quality.
- A manager is stymied because his ambition outruns his talent, and holds his boss responsible for his own failure.
- A manager's growth is checked because no suitable openings exist for promotion.
- A manager's dislike stems from personality conflicts. He is flashy, for example; the boss is staid and conservative.
- A senior subordinate cannot reconcile himself to his "young squirt of a boss." Or he feels that the boss's chair should rightfully be his.
- And, again, especially common is the subordinate who thinks he is worth a whole lot more than he is being paid.

How can you keep a subordinate's unjustified antipathy from hindering profit goals? If the hatred is hurting the operation in any way, corrective measures are clearly called for. And in most cases, generalizations don't help.

"Individual problems," says Mr. Steere, "call for individual solutions. As often as not, a manager must play it by ear."

But once the boss is aware of the problem, and resolved to do something about it, the fight is half won. In one company a manager with limitations apparent to his boss deeply resented not being selected to head up a new computer operation.

The boss decided to set him straight. He sent him



Masks hide feelings

to a grueling all-day operations research seminar. Then he asked the manager to make some specific recommendations to the company's sophisticated consulting group. The manager alibied his way out of making the recommendations. He was relieved to return to his regular duties, purged of both his ambition and his resentment.

"There are few hate situations," says John H. Lippincott, a senior vice president of the consulting firm of Rogers, Slade & Hill, Inc., "where a real attempt to explore and understand the human values involved will not pay off in better feelings and more harmonious relationships."

Making the best of bad feeling

"You may be able to water down animosity," says Sanderson & Porter's Mr. Steere, "but you're not likely to eliminate it entirely. The problem is how to win the cooperation you need in spite of a subordinate's dislike." Both Mr. Steere and Mr. Lippincott offer some helpful suggestions:

1. Use respect to take the edge off dislike. "Friendship is communion," said Aristotle. Unfortunately, Mr. Lippincott points out, there is little time or opportunity in business for the kind of communion that builds strong friendships. "The best one can hope for is respect. More is a pleasant bonus."
2. Don't give your people time to indulge their dislikes. "This is a busy world," Elbert Hubbard once said. "None of us has time to sit down and hate another." Mr. Steere recommends applying this to the job. "Keep subordinates so busy concentrating on profit goals that they'll have little time to focus their dislike on you."
3. Trouble-shoot performance weaknesses on a regular basis. A cosmetic company's chief chemist took bitter exception to his boss's harsh criticism of certain aspects of a long-term project. "We've been doing it this way from the start," he com-

plained. "He should have checked the procedure weeks ago and let us know about his objections then."

The scientist was right, in Mr. Lippincott's view. Work appraisal and the proper alignment of guidelines should be taken care of at set intervals. Otherwise a subordinate is apt to go wide of the mark and get into large difficulties. When this results in censure, the natural by-product is resentment.

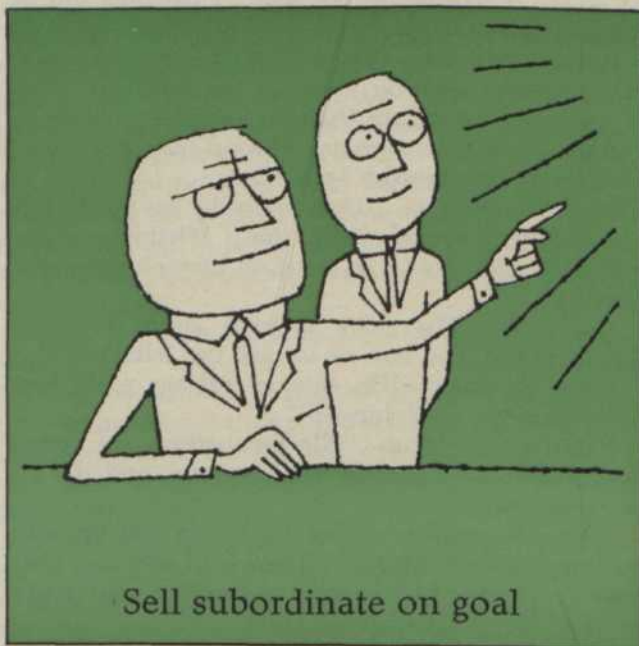
4. Shoot for loyalty to cause instead of to self. The point is this: An executive who bends too far backward to overcome a subordinate's antipathy is likely to wind up with more trouble than he had to begin with.

5. Sell your people on profit goals. "The emotional satisfaction derived from responding successfully to the challenge of tough and rewarding objectives is far stronger than the negative satisfaction one gets out of hating his boss," comments Mr. Lippincott. Communicate goals and the employee's stake in them to the maximum degree possible, he suggests, and you will do much to diminish the ill effects of animosity.

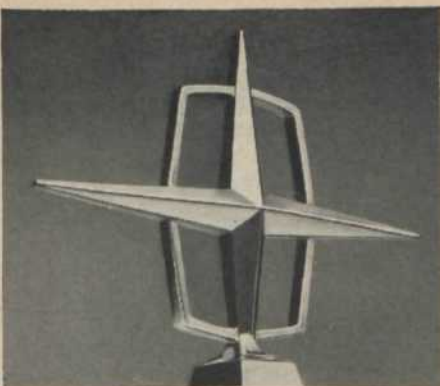
"Most poor relationships," Mr. Lippincott stresses, "spring from misunderstandings." The best way to get to know the other person and to appreciate his point of view is through frank discussion. Good communications, up, down and across, says Mr. Lippincott, are still the most effective key to better understanding.

"It helps too," the consultant says, "if the subordinate knows how to take directions philosophically. If he disagrees, his best bet is to organize his position and sell his own system as forcefully and objectively as he can, and in dollars and cents terms."—RAYMOND DREYFACK

REPRINTS of "So Your Employees Don't Like You" may be obtained for 25 cents a copy, \$12 per 100 or \$90 per 1,000 postpaid from Nation's Business, 1615 H St., N.W., Washington, D.C., 20006. Please enclose remittance with order.



Sell subordinate on goal



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As standard equipment, Continental continues to offer power steering, power brakes, power seats, power win-

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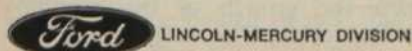
Of course, Continental offers a complete list of luxury optional innovations. Your dealer invites you to discover how easy it can be to own a Continental.

Ward's Automotive Reports, authoritative industry publication, comments on Lincoln Continental's magic formula:

$$5 + 462 + 265 = 25\%$$

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FIGHT INFLATION

continued from page 35

A. Yes, and investment is discouraged.

On the other hand, where prices rise because demand for a commodity is strong, consumers are casting their votes for that commodity; they want more of it. The way to get more of it is to allow the better price to stand and to have a better profit for that type of production. This is the way a market system responds to votes of the consumer.

But once government steps in and begins to prevent these adjustments, to put obstacles—such as guidelines or other controls—in the way of adjustments, it becomes impossible for the price system to do its job and the efficiency of the economy is reduced. Q. When you refer to the price of a commodity, do you include the price of labor?

A. The price or cost of labor, for the economy as a whole, is a major cost in production and therefore must be reflected in price.

Labor costs—75 cents per \$1

Q. Is that generally realized?

A. Well, perhaps not. People may see that in a particular enterprise labor is not a very important cost, because there is rent, cost of materials and so on. For a particular enterprise these may be very much larger than direct labor costs. But the cost of materials, for example, itself contains a labor element. And when you reduce all these costs to their basic components, you find that the cost of labor is the predominant element.

If you take national income as a whole—which is roughly \$550 billion at present rates—nearly \$400 billion of it is for compensation of employees. The remainder makes up what is paid for rent, for interest on money borrowed and for profit. So, in this basic sense, labor accounts for close to 75 per cent of total costs.

But in a situation like the present—which is really a wartime, certainly a war-affected, economy—you have very heavy demands for production materials and widespread price increases. These price increases are often more a reflection of increases in demand than of increases in cost. As a result of them, however, we are going to get encouragement for

larger production, which is precisely what we need.

Q. When you refer to this as a wartime economy, does this set any sort of new rules to the game?

A. No, I wouldn't say that business has to follow any different rules, really.

What the businessman has to do in this situation is precisely what it is his job to do in all situations: To try to operate just as efficiently as possible, to try to be as responsive to market demands as possible.

Q. In other words, there is nothing unpatriotic about running your business efficiently?

A. On the contrary, that is exactly what is called for. It is called for at all times, of course, but at a time like this there are many lines of production in which the urgency of the need for efficiency, for prompt delivery, for high quality and reliability of quality is greatly enhanced.

Naturally, when we are faced with a war situation, as we are in Southeast Asia, the need for many products is greatly increased and the whole tempo of the economy must accelerate.

There is, of course, another characteristic of a wartime economy which is that it's a very precarious one.

Q. What do you mean by that?

A. Look at it this way. The cost of the war has mounted, and I don't see how we can prudently contemplate anything but further increases in its cost. The budget apparently projects defense expenditures of \$58 billion in the 1967 fiscal year and I believe they will go to \$60 billion at least. This means that between fiscal 1965 and fiscal 1967 we will have moved from a defense expenditure rate of about \$46 billion to \$60 billion plus, a swing of nearly \$15 billion.

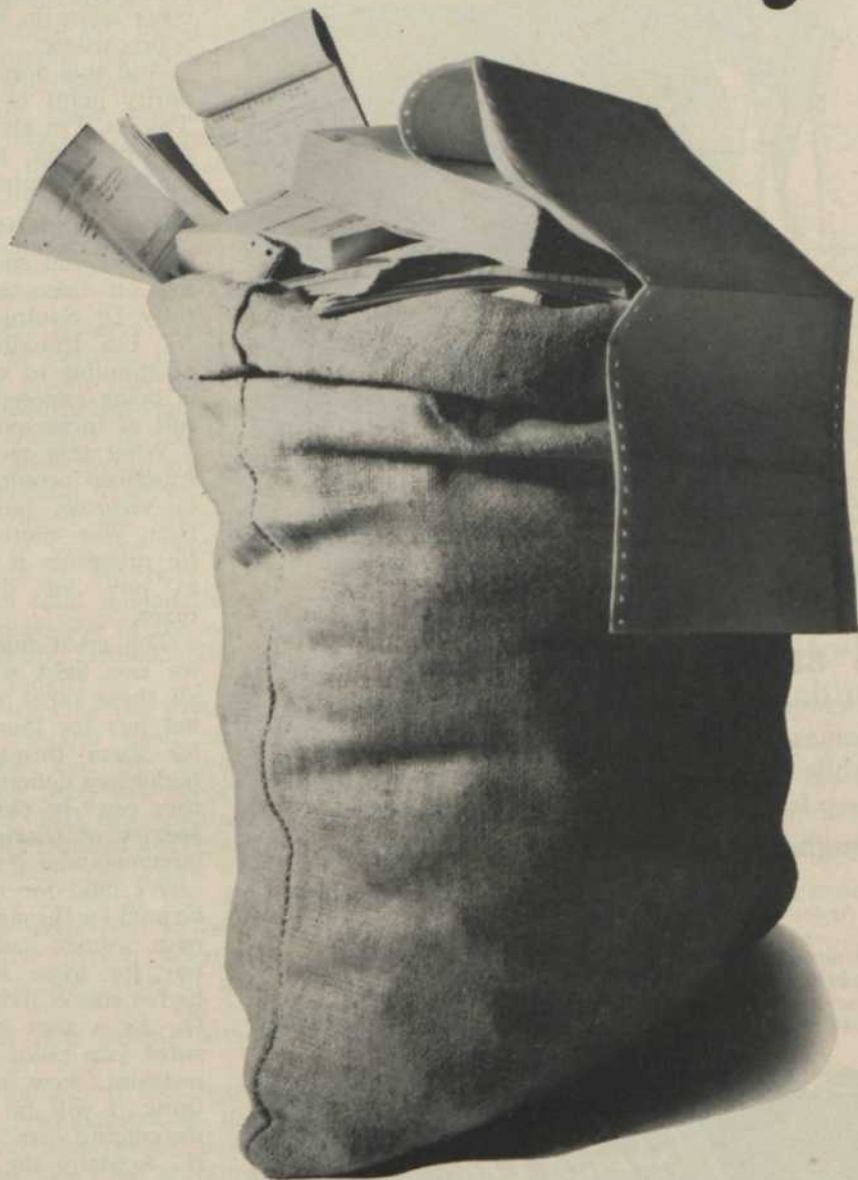
Q. A one-third increase?

A. That's a one-third increase. It is a big swing.

Now, an economy so much affected by a large increase in defense spending could get a terrific jolt if there were a sudden cutback. Much as we would like to see such a cutback, it would have to be handled very carefully. That is part of the sense in which the situation is precarious.

Beyond that, there is the fact that we are currently using up the full amount, and more, of the increase in tax revenues that comes with the growth of the economy to finance the rise in federal spend-

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FIGHT INFLATION

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ing. So the need for economies in areas of spending that are not urgent is very real at this time. Indeed, if we don't economize, we are in for a seriously overheated economy, a very rapid acceleration of costs and prices and a widening and hardening of direct wage and price controls. That is the other sense in which the situation is precarious.

And this doesn't represent a minority point of view on my part. This is, I'm sure, a point of view to which the majority of economists would subscribe.

Taxes or inflation

Q. Can you spell out your thinking on this point a little more fully, Dr. Saulnier?

A. I'm thinking of the amount of stimulus to which the economy is being exposed, mainly as a result of increased spending.

What this means is that if the American people want—in addition to vigorous pursuit of the Viet Nam War—more and more domestic programs it will be necessary to pay for these with higher taxes.

The great mistake is to believe we can fight this war and have all these other programs and still not pay for them, or perhaps pay for them through the magic of budgetary deficits. The fact is that they can't be paid for through any species of magic. In the present circumstances, if these expenditures aren't paid for in taxes, they will be paid for through inflation. Every man, woman and child is going to pay for them in the form of a higher cost of living.

Q. As a part of the fiscal measures you point to as needed for restraint, how necessary do you think it will be to raise taxes in the coming year?

A. Actually the President is proposing an increase of roughly \$1 billion in excise taxes. And he is in the fortunate position of being able to get another \$3.6 billion by accelerating the payment of corporate income taxes and by introducing a graduated withholding rate for individual income taxes.

But the latter two are nonrecurring revenue increases; we can't count on them every year.

These measures will perhaps suffice for the moment, but we will have to slow down the rate of increase of expenditure or somewhere

along the line we will have to raise taxes.

Another way to say this is that if people want more government they are going to have to pay more taxes for it.

Q. What do you have in mind specifically when you talk of monetary and credit restraint?

A. I mean the steps that can be taken through the Federal Reserve system to slow down the rate of increase of money supply. This means discount rate increases. It means open market operations. It means reserve requirement changes. I'm not saying these are steps that must be taken at this point. They are the weapons available to the Federal Reserve Board when it is necessary to exercise control over the expansion of credit.

Fed deserved thanks

Q. The Federal Reserve then is our first line of defense in this?

A. Exactly, it is our first line of defense. I was surprised—not surprised, I was shocked—at the violence of the Administration's attack on the Federal Reserve system when it raised the discount rate one half of one per cent in early December. I can only explain this as a total misjudgment by the Administration of the economic situation and outlook. They completely misjudged it.

Instead of attacking the Federal Reserve, they should have been grateful to the Fed for having done something that was needed. Incidentally, I had the distinct feeling that the President was much less agitated about the Fed's action than were others in his official family. I judge him to be a pretty perceptive person when it comes to the policy needs of the economy.

Q. You think he's getting some bad advice?

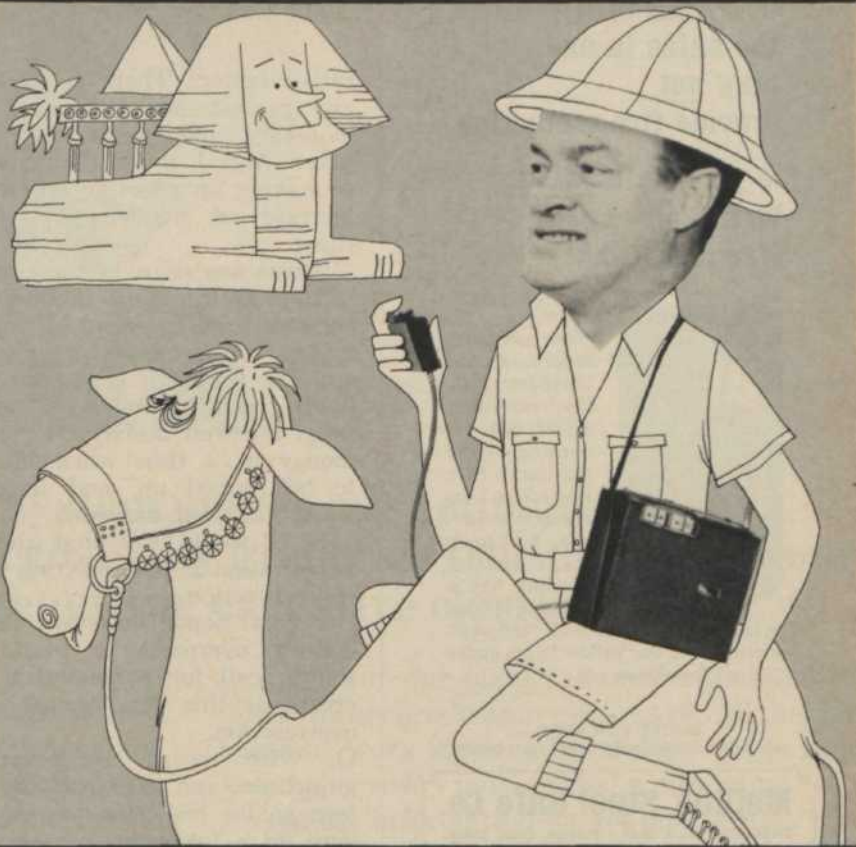
A. Well, let me put it this way: There was a misjudgment of the policy needs of the economy; more than that, there has been a rather consistent misjudgment, a persistent underestimate, of the costs of the Viet Nam War effort.

Also, there was an underestimate of the strength of demand coming from the private economy, especially in the form of plant and equipment expenditures by business.

Q. And this also leads to this scrambling we have had on steel prices?

A. Yes, that was part of their misjudgment. But the Administration is now responding to the situation

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FIGHT INFLATION

continued

rather better. There is no longer any protest over the role that monetary and credit policy can play. And I think the President is making an effort to control the increase of nondefense expenditures.

These are steps in the right direction. I think his proposals for accelerating the receipt of revenues under the corporate income tax and the use of a graduated withholding rate for individual income taxes are well designed to sop up money at a time when it needs to be sopped up, and to do so without tax rate increases.

So I would say that the Administration is now reacting in the right direction.

I just hope, however, that it doesn't overreact. I would say that a call for a general tax increase at this time would be an overreaction.

Q. With regard to government guidelines and controls, the pattern so far has been to put pressure on a few more or less basic industries, which have felt it necessary to raise prices because of costs: steel, aluminum, copper, for instance. Where are similar pressures going to come in the future?

A. I think the pressure will be quite widespread. Practically all basic materials have increased in price. Most consumer goods have increased in price: clothing, food. Many services have shown price increases and I'm afraid there are more to come.

The guidelines have focused on only a few prices and, indeed, this is one of my major complaints against them. It isn't an equitable type of price control. It is an

effort to control a whole price system by making an example out of one or two key prices. This just doesn't make sense. It's arbitrary and inequitable and it's damaging to production.

It's a kind of showpiece price control.

Q. Where do you think the next showpiece might occur?

A. I don't want to say I don't expect to see any more such examples, but the fact is that pressures on prices are becoming so heavy, and price increases are becoming so widespread, that we are now out of the zone where it is feasible for government to do very much by this type of control.

Q. Are we facing a situation in which leading industries and companies will be obligated to notify Washington before raising prices or be publicly denounced?

A. Yes, that is a real danger. What could happen is this: If the economy is kept under heavier and heavier pressure from governmental expenditures and credit expansion, this will reflect itself in more widespread and larger price increases. Then, some people will say: Let's have wage-price controls. And it won't be easy to persuade people that such controls will be futile and harmful, unless pressure of demand is reduced.

Q. Do you mean direct controls or so-called guidelines?

A. I'm referring to direct wage and price controls. Guidelines are in this general category except they aren't as formal, they aren't as well defined and there's no big book of regulations that goes with them. They're arbitrary and inequitable. They're like lightning, they can strike anywhere. But they, too, can be avoided if government itself is willing to practice sufficient restraint. **END**

LESSONS OF LEADERSHIP *continued from page 47*

them without knowing where the money was coming from. When we bought the first DC-3's, we did not have enough money to make the down payment and Douglas "trusted us" for it. Further, we could not find banks willing to lend us enough to make the final payments.

We ended up borrowing from the Reconstruction Finance Corp. That bank was set up to make loans where bank credit was not available and we certainly fit that specification.

You will take relatively large financial risks when you are small and are strapped for money, because of no alternative. But you should not operate your business that way when airplanes cost \$6 million each and your obligations total hundreds of millions.

About 15 years ago we started operating on the basis of an annual budget and a five year projection. It takes a lot of work to forecast the potentialities for five years in advance, but it increases your knowledge of the business, provides



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
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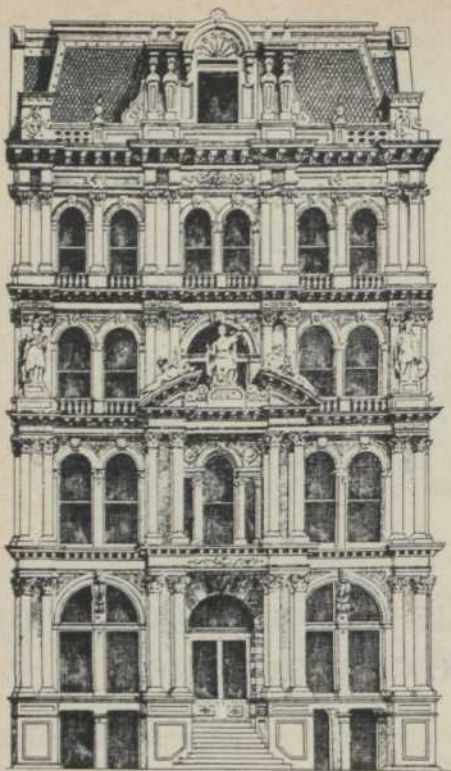
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LESSONS OF LEADERSHIP

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a good discipline and makes your decisions better.

We used to do our own forecasting, but now the figures are larger and our business is more closely tied to the national economy. We now have a staff of competent economists, and our forecasts continue to improve.

There is nothing unique about business planning; many do it and do it well. But it was unique in the early days of aviation, and I am glad that American was among the first to tackle it.

Does that boil down to planning, or foresight?

The two go together. If you have a determination to plan, you acquire something that might be called foresight, because you end up with more usable information than is available to those who do not plan. But foresight is not something you can pull out of the air; it's something you get from a careful analysis of all of the facts available.

How do you run a company that's spread all over the map?

We have changed our form of organization several times in the postwar period, trying to find the best way to do business. We formerly had regional offices at New York, Chicago, Boston, Los Angeles and Fort Worth, with a reasonable area of policy-making authority for them. But we soon found that four or five offices, each forming its own policies, are likely to produce four or five kinds of service on a single airline. And the customer expects a reasonably uniform service.

We were trying to sell our freight customers on the idea that they could close up most of their regional warehouses and ship by air from a central location. If this was a good idea for our customers, why not for ourselves.

We now have centralized policy control, and we have now a more uniform service throughout the system. This has brought better service and some substantial economies. With no city more distant than five hours from the central office, this is, I believe, the best way to run the airline.

How do you personally keep in touch with what's going on?

The best way to operate a business is to have logical divisions of

responsibility, staff the divisions with competent men, give them authority and ask them to prove results. The most important of these is to have competent men.

You move around a good deal yourself, don't you?

Yes, everybody does. My average has been around 50 per cent of the time traveling for the last 10 or 15 years. I've been slowing down a bit lately; but everybody in the company with responsibility is encouraged to go around, see where and how the work is done and get acquainted with the customers.

There's a story that you moved around so much that you hung a copy of the local newspaper at the foot of your bed so you would know what town you were in when you woke up.

It was a hotel towel, not a newspaper.

One time I read my towel wrong—must have been one of the chain hotels. I got up and went downstairs once, started looking for a club with a swimming pool and couldn't find it. So I finally went up to a cop and said, "Could you tell me where the Birmingham Athletic Club is?"

He looked at me and said, "Damned if I know, probably in Birmingham."

I was in Atlanta.

I understand you like to hunt and fish.

Yes, I get away from the office when I can. In total, I spend about six weeks each year fishing for salmon, deep-sea fishing and duck shooting. I wish these sports paid better; I'd be with them all of the time.

There is not much relaxation around an airline; this is a day and night business, every day of the year. You do not make good decisions when you are tired and irritated. We encourage our executives to have some outside interest, hopefully those involving a change of location and physical exercise. Mr. [Marion] Sadler, our president, has, for example, been introduced to duck shooting and he is enthusiastic about it.

Isn't card playing one of your avocations?

I know how to deal.

Does Mr. Sadler play cards?

I've never caught him at it.

If there are two ways to get profit out of an airline—hold expenses down or

get revenues up—which route would you say you have taken?

Well, if we had to be classified, American would probably be rated as a relatively high-cost airline. We have been one of the leaders in introducing various improvements leading to better service. Improvements in service usually cost money.

Take the reservations department, have you noticed a substantial improvement in the past year? At one time we had more than 300,000 reservation cards in the New York office alone, for the reservations from a single community. Someone had to make out the cards; someone had to classify them; someone had to file them and someone had to search the files if the information on the card was later needed.

No more of that; it's all on the memory drum of a computer; punch a button and it comes out. We spent more than \$30 million on the new reservations system. But it is a good investment; it produces better service for the customer, at lower cost to the airline.

American is known for considerable turnover at the next-to-the-top level. How would you compare your executive turnover with other airlines?

Our rate of turnover for executive personnel is higher than the industry average.

How would you explain that?

We are not content with the industry average for executive ability; we try very hard to secure men and women with more than average ability. Our requirements are higher than the industry average, and our turnover is higher than the industry average. But we continue to try to reduce it. This business moves fast and the tempo is accelerating. We have come from 100 miles an hour to 600 miles an hour in 35 years, and in the 10 years ahead of us, we will have 1,800 miles an hour. These changes involve a hell of a lot of complications, technical and otherwise.

As you go through 35 years of a single corporate life, you find that some of the starters could not keep pace with the growing complexity of the business. Some people, unfortunately, come to a certain point in their evolution where they do not continue to advance. Some are looking for the time when things will "settle down" and fewer unusual efforts will be required. But the business pays little attention to their desire for a more peaceful life; it is just not that kind of business.

If you keep people in jobs of responsibility after they have proven they cannot carry their part of the load, they slow down the whole damn shop. And, inevitably, some of the work they should be doing goes on the backs of others. That is not fair to the people who are actually carrying the load.

We try not to be arbitrary, because we do not want to be that way and because it does not pay to be that way. We believe in giving everyone a fair chance and if there is serious doubt we give him a second chance. But if he does not make it, and the situation justifies

it, we try to be generous in settling with him, and we try to give the job to someone who can get it done.

And, of course, we make mistakes, but, on the whole, our judgment is improving and our rate of turnover is dropping.

Do you prefer to operate through committees in your work, or do you keep that typewriter of yours going with memos?

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LESSONS OF LEADERSHIP

continued

you come into my office and I tell you something; if there are three people around, there are likely to be three different interpretations of what I said. If I write it down, I figure there will be no misunderstanding, unless I wrote it badly or you read it badly.

To get back to equipment, is it true that when it came to the twin jet BAC-111 you would have preferred to buy from a U. S. manufacturer, if the plane you wanted had been available?

Let me tell you the story: We prefer airplanes built in the United States, and we did our best to buy a twin-engined airplane here before we ordered the small British plane.

In 1959, as I remember the year, we decided that we must have a smaller jet, one of a size designed to serve some of the smaller cities. We suggested to three manufacturers that they build one. Convair said it was too involved in its four-engined jet, the 990, to take on another airplane. Douglas was involved in the DC-8 and did not then want to take on a twin-engined airplane. Boeing was in love with the 727, as it should have been, but it didn't want to do a twin-engined airplane.

British Aircraft came along with a design for a twin-engined jet. It said it would build the jet whether or not we bought it, because there would be a world market for a small jet. We suggested several design changes, these were met and we bought 30 of the British jets.

Douglas did build a twin-engined jet, and a good one, the DC-9. Boeing is also designing a twin-engined jet, the 737, to be ready for delivery in a couple of years.

In buying the small British jet, we anticipated a lead time of about a year before our principal competitors had similar jets. But Douglas speeded up, and British Aircraft slowed down, with the result that we have lost most of that year of competitive advantage.

What are your biggest problems ahead—the CAB's attitude on profits?

No, I doubt that this is our principal problem. The policy of the regulatory agency, the Civil Aeronautics Board, has been and is that the airlines have a fair rate of return on investment, for a reasonable period of years. There is no tight definition of what constitutes a rea-

sonable period of years, but it is generally accepted that it should be in the area of five or six years.

Our current problem is that we have oversold our own prosperity. For the five years ending Dec. 31, 1964, the rate of return for the domestic airlines was less than five per cent, less than one half the permitted rate.

In 1964 we had a fair year, and in 1965 we had a good year. Evidently overwhelmed by the excellent figures for 1965, every guy in charge of an airline tried to outdo every other guy in charge of an airline in telling how good he was doing. We now have our customers, our employees, the public and the regulatory agency believing that we are doing better than we are.

We did not keep our publicity in perspective and it bounced. One of our omissions was that we did not make it clear that much of the better earnings for the industry has come from an additional investment of several billion dollars.

Our principal problem in this area is within our own house; we should cease boasting until there is something to boast about. The regulatory agency is giving us some headaches about rates; but the agency is a responsible one, and when the facts are known and understood, we should end up with a continuation of existing policy: That we should have a fair return, which is all that we seek.

If CAB isn't the main problem, what is?

One problem on the horizon is the continuing potentiality of serious overproduction. Airplanes capable of carrying 125 people at 600 miles an hour can add to productive capacity very quickly. Our job is to keep production within reasonable range of public demand.

There were signs of overproduction in 1965, when load factors on some of the principal routes got down to 40 per cent or less for some months. A 40 per cent load factor means that 60 per cent of the seats are empty, and that is not the way to run a profitable airline.

If the airlines add productive capacity at a rate higher than market demand, both load factors and profits will plummet.

Do you see prospects for a great bulge in new traffic?

There are two big markets:

1. The business traveler.
2. The pleasure or vacation traveler.

We have done fairly well in the

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It's easy. Add new '66 Dodge Coronet to your contact team. Which of the 12 new models you choose really doesn't matter. All are cast from the same exciting styling mold. All are designed to reflect your own good taste and common sense. Take Coronet 500, for example. One of the handsomest Dodges ever built. But practical. Coronet 500's comfortable, foam-padded bucket seats . . . spirited, regular-gas V8 . . . generous, stretch-out room and big-car ride pamper your men with a purpose. No matter how far they drive, they arrive fresh and ready to go to work. And no more parking in secretive places. Coronet 500's bold styling says "executive parking lot" all the way. And the same holds for all the new '66 Coronet models: the Coronet 440, the Coronet Deluxe, and the superfrugal Coronet standard. Which you choose depends on your own needs and taste. But all, we assure you, cost less to own or lease than you might imagine. Sample one on your own private proving grounds. '66 Dodge Coronet—a beautiful assignment any salesman will find a pleasure to handle. See your nearby Dodge dealer and he'll prove it.

'66 Dodge Coronet

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LESSONS OF LEADERSHIP

continued

first of these markets, the business traveler. We have barely scratched the second, pleasure and vacation.

We have, perhaps, also neglected the younger people. When we were young, the old folks had all the money. Today, it is better distributed. Also, when we were younger, there was more emphasis on saving some of your money. Today, there is a ready willingness to spend more and in some cases to spend all.

Our growth in 1965 came largely from a growth in vacation travel, evidence that we are making a dent on that vast potential market. This year we will have more programs directed at the youth of the country and at the vacation market.

What's the outlook further in the future?

We should have supersonic service within 10 years. This will be most useful for long distance travel, because these airplanes will have to operate at 60,000 to 70,000 feet. For shorter distances, we should have a widespread boost in vertical lift machines, able to take you from downtown to downtown. Some of the engineers are talking about a rocket service, around the world in two and one half hours, but this is more distant.

Whatever the details, you may be sure that we will push ahead; that's our habit and we are not likely to change.

REPRINTS of "Lessons of Leadership: Part X: Riding High in a New Era" may be obtained for 30 cents a copy, \$14 per 100, or \$120 per 1,000 postpaid from *Nation's Business*, 1615 H St., N.W., Washington, D.C. 20006. Please enclose remittance with order.

TO CUT YOUR TAX BILL *continued from page 37*

deduction for 20 per cent—or \$105.

You can ask the charity for an appraisal of the donated property—in writing. Many charities will be happy to give such a statement.

- You might also be able to increase the value of your hobby. How? If your hobby is carpentry and results in a finished product—such as a cabinet, or a bookcase, for example—all you have to do is give it to your church or charity.

Result: In addition to the hours of fun and relaxation you'll have in making the items, you'll also get a charitable deduction for the full fair market value of your gifts.

And if your wife does fine needlework, or painting, that can be turned to a charitable advantage. Let her donate her finished products to charity, and take a deduction for their fair market value.

Example: One woman painted eight pictures which she gave to schools and colleges.

Result: She painted herself a charitable deduction of \$9,300.

Important: IRS is attempting to tighten up in the area of gifts in kind, worth more than \$200, by requiring a description and the method used to determine its fair market value. However, this shouldn't pose any special problem. Get a receipt from the charity, a written appraisal and attach both to your return.

3. That medical deduction

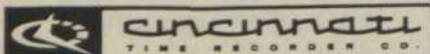
What is a medical expense? Everyone knows—or do they? Sure, a doctor's or dentist's bill qualifies, as do amounts paid for drugs, eyeglasses, hospital services, hospitalization insurance and so forth. Here is a brief review of some of the more frequently forgotten medical expenses:

- Domestic help: If your wife has a baby, or your dependent mother has an operation, you hire a domestic to cook, clean and care for wife and baby or mother. Deductible? Yes, to the extent "nurse-like" services are provided.

If "nurse-like" services are rendered, at least part of your cost will be deductible, even if the domestic attendant is not even a practical nurse. But, be prepared to prove such services were performed and what proportion they were of all services rendered.

- Every winter you go to Florida for six weeks. Florida's balmy breezes are like a health tonic, you are convinced. Is the cost of your trip deductible? Travel to a more equable climate to improve your general health is a personal expense, which is non-deductible.

However, suppose your doctor prescribes the trip to alleviate some specific disease. This is different—now you get a deduction for the cost of your round-trip ticket, but



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TO CUT TAX BILL

continued

not for meals while you're there or lodging.

Important: Assuming your expense is deductible, so is the cost of bringing along any attendant (a nurse) your condition might require.

• Other medical transportation: The cost of getting to and from the medical attention you and your dependents require is deductible. How much? The actual cost of the round trip. If you use your car, this means gas, oil, tolls and parking but not depreciation. Alternatively you can use the five cent a mile allowance.

• Special education and training: You have a physically or mentally handicapped child. You send the child to a special school primarily to obtain medical aid for the ailment. All of your costs are medical expenses, including those for meals and lodging and the cost of ordinary education.

• If required to alleviate a specific ailment, the cost of air conditioners, reclining chairs and the like is fully deductible.

A home improvement, if removable, such as a chair-seat inclinator or elevator installed for a heart patient, is deductible. If it's a permanent installation, a different rule applies. You can deduct the difference between cost and the amount by which the improvement increased the value of your home.

Example: A taxpayer's daughter suffered from cystic fibrosis. On the doctor's advice, he installed a central air conditioning unit in his home at a cost of \$1,300. This increased the value of taxpayer's home by \$800.

Result: Taxpayer got a \$500 medical expense deduction.

• Visiting the sick can be a deductible cost too. Where your doctor prescribes visits to a sick dependent for therapy purposes, the transportation costs are deductible.

Example: A boy suffered from asthma and emotional problems. His doctor recommended he attend school in Arizona for health reasons and prescribed regular visits by his parents as part of his therapy. The family resided in Memphis, Tenn. The boy's plane fare to and from school was deductible. And so were the transportation costs of his parents when they visited him.

• Normally the cost of a special diet is not deductible—it's considered merely a substitute for food

Remember when Background Music was expensive and strictly for "Big Business"?

Nowadays just about every business and professional man has been exposed to background music. Its value for influencing people has been amply proved. Depending upon your objectives, you can use background music to put customers in a buying mood, put patients in a relaxed mood, put employees in a happier working mood.

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You Buy Both Equipment And Music outright. Total cost of ownership amounts to about one month's salary for an experienced secretary.

For this modest sum, you own the new 3M Brand "Cantata" 700 Music System. Included is a compact cartridge of 700 different musical selections.

Two Different Libraries are available. The Melodic Library is designed for stores, clubs, hospitals, restaurants, rest homes, hotels and motels, etc. The Rhythmic Library is programmed for offices, factories, supermarkets and professional quarters.

Think of what this means to your business, professional office or factory! You can soothe away the annoyance or impatience of clients, customers or patients. You can



create a melodically tranquil atmosphere to increase sales. You can stimulate employees to extra effort.

Incidentally, you can use the "Cantata" 700 as a public address system, too.

Remember, You Own This Compact Unit. It's only the size of a typewriter—just 15 inches by 7 inches by 12 inches. Yet auxiliary speakers make it completely practical for large office suites, factories, stores.

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TO CUT TAX BILL

continued

you'd normally consume. However, suppose preparing the special meals involves added extra expense, for example, the extra cost of preparing salt-free meals. Such extra costs are deductible medical expenses.

The cost of vitamins is a deductible medical expense, provided the vitamins are prescribed or recommended by your doctor.

Even clarinet lessons and fluoridation.

An orthodontist recommended clarinet lessons for a taxpayer's child's teeth. He was allowed to deduct the cost of buying a clarinet plus the cost of the lessons.

Another taxpayer, on the advice of his dentist, installed a device in his home which added fluoride to his home water supply. IRS ruled he could deduct the cost of the installation.

So don't assume an expense connected with health or illness is not deductible. If your doctor prescribes the expenditure and its purpose is therapeutic, the chances are that you can deduct it.

4. Deduction for tuition

If you have children in college or prep school, you're well aware of the high cost of education today. And, like many other parents, you may be paying the tuition in installments, at the cost of a carrying charge. If so, don't overlook the deduction you're now entitled to under the tax law.

Here's how it works: You can deduct a sum equal to "six per cent of the average unpaid balance under the contract during the taxable year."

Example: You're paying your son's college tuition in installments. The bill for the 1964-65 school year was \$2,000 plus a stated carrying charge of \$80. Ditto for the 1965-66 school year. You pay each bill off in eight equal installments of \$260, due on the tenth of each month beginning in October. Since you're interested in your 1965 deduction, start your calculations with the balance as of Jan. 1, 1965.

The 1965 average unpaid balance is \$780 (\$9,360 divided by 12).

Your 1965 deduction is \$46.80 (\$780 x six per cent).

5. Big purchases and sales taxes

IRS has prepared tables of acceptable sales tax deductions each year. You'll find this year's tables

included in the instructions you'll get with your Form 1040.

You can claim at least the acceptable amount indicated in the table. IRS will accept this figure even if you have no records to support the amount.

Suppose, however, that you made an unusually large purchase during 1965. Say you bought a \$5,000 automobile. Can you deduct an added amount—over and above the "automatic" amount—for the tax you paid on this unusually large purchase?

Yes. IRS says that's exactly how you should handle it.

6. Break for two-job man

Normally, the cost of commuting to and from your job is not deductible. However, take the case of the two-job or two-office man. IRS itself gives him a tax break.

Assume you live and work in Chicago, and have two jobs in that city to which you go every day. What can you deduct?

If you travel from home to Job One, then to Job Two, then home, you can deduct the cost of going from Job One to Job Two. The rest is commuting; no deduction.

Or suppose you are taking refresher courses chiefly to improve the skills required in your job. You take the bus from work to your classes—a distance of about eight miles. You know that if you took a summer course at a distant city to do this, you could deduct the cost of travel, including meals and lodging. But this is a local school. Can you deduct your fares in going to class from your job?

Yes. But not the cost of getting home from class. The same general principles apply as in the case of the two-job man—treat school as Job Two.

7. That summer income

Remember that \$500 your 17 year old son earned during his summer vacation last year? Remember that his employer withheld about \$70 in income taxes from that \$500? What are you going to do about it? After all, he doesn't have to file a return—he didn't earn enough money.

Despite the fact that he's not legally required to file a return, if he wants that \$70 back, he's got to file one. This is an absolute must to claim a refund.

How does this affect your return? Not at all. Even though Junior can claim his own exemption for purposes of com-



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Have you ever thought what might happen to your close corporation if one of your fellow shareholders died tomorrow?

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Or—the widow could decide to sell her inherited stock. But the company might lack the ready cash to buy it back—so the stock is picked up by some outsider. And then a complete stranger has a say in running your business.

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right plan can guarantee your corporation sufficient income-tax-free funds to buy the stock of a deceased shareholder...at a price agreed on ahead of time.

There are other advantages, too. This New York Life plan builds cash values which your corporation can use in the event of an emergency or business opportunity. And banks and creditors are usually more willing to do business with a firm that has taken steps to protect its continued existence.

Ask your New York Life Agent to show you how you can protect *your* close corporation. Call him, or write: New York Life Insurance Company, Dept. NB 3-6, 51 Madison Avenue, New York, N.Y. 10010.

In Canada: 443 University Avenue, Toronto.

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TO CUT TAX BILL

continued

putting his own tax, you still keep your dependency exemption for him, and you don't have to add his income to yours.

8. Get double dollar value

Let's assume that you have been active in the market. On most of your transactions you bought low, sold high; on a few, vice versa. But your results for the year are \$4,000 on the plus side. But you had expenses. Such things as brokerage commissions, federal and, in some cases, state transfer taxes have to be taken into consideration. You'll get these figures from your broker's statements. For example: broker's fees—\$215; federal transfer tax—\$5; state transfer tax—\$190.

How do you handle these expenses?

If you're like the great majority of investors—you're handling things the wrong way. Here's why: Most investors, working from brokers' statements, find out how much they made on the stock transactions (by deducting the buying price from their sales price).

They then total up all the sell-

ing expenses \$410 in this example). They deduct expenses from profit (\$4,000) and report the total (\$3,590) as long-term capital gain. Is that the way that you're handling it? If so, you're cheating yourself.

The law says you must add the broker's fees and the federal transfer tax to your cost and deduct it from the sales price. But the same law allows you to handle the state transfer tax differently. You can deduct it against ordinary income instead of against your long-term capital gain.

Result: The deduction will be worth at least twice as much.

It's a basic tax-saving tactic—but often overlooked: Wherever possible, take deductions against ordinary income rather than against capital gain.

One more thing. The key to permanent tax savings is accurate records. The tax law requires them and it makes good dollars and cents. Nothing is more aggravating—or expensive—than having a perfectly legitimate deduction knocked out in an audit just because you were careless about keeping good records.

Don't let this happen to you. Make every year a "record" year.

END

ISSUES FOR '66 ELECTIONS *continued from page 39*

cratic efforts to pass legislation banning state right-to-work laws. This has been a matter of spotty voter interest in the past, but some politicians feel that labor's high-handed attitude in the New York transit strike and some other recent disputes has changed that.

In this general area, Republican voices are beginning to get louder. Rep. Robert P. Griffin, Republican of Michigan, coauthor of the Landrum-Griffin labor law, has called for a joint Congressional committee to probe "the concentration of economic and other power under the control of business and labor organizations," noting that Congress "has done nothing to alleviate strikes, but actually has promoted legislation to encourage strikes."

And Rep. Charles McC. Mathias, Jr., a Maryland Republican, has urged the President to set up an investigating committee to look into strike paralysis, asserting that "the American public will no longer condone the crippling strikes which have tied up transportation, im-

mobilized commerce and inflicted serious economic injury on millions of innocent bystanders."

• **CIVIL RIGHTS**—In Northern areas, many Republican candidates will criticize the Administration for not moving fast enough to register Negroes in the South and take other civil rights steps. In the South, many Republicans will attack the White House on the grounds that it is pushing integration too fast, causing racial unrest.

• **TAXES**—Aside from any debate that may develop on broad tax increases, Republicans are likely to attack Administration failure to move on some tax fronts they have been urging. The G. O. P. has seized the proposal first promoted by liberal Democrats like Walter Heller to turn some federal revenue back to the states and cities each year. They have also been pushing hard on legislation to give parents a tax deduction or tax credit for their childrens' college costs and to give tax benefits to employers who pay for teaching their workers new job skills.

• **EAST-WEST TRADE** — Many Republicans will zero in on Administration proposals to expand trade with the Soviet Union and its Eastern European satellites, arguing that this would merely give these nations a chance to build productive capacity that would ultimately be turned against us in Viet Nam or on some other battleground.

• **BIG GOVERNMENT** — Republicans will hammer away at this traditional theme. They will include in their attacks the way the federal government is bringing increasing pressure to influence private business decisions on prices, mergers and other matters. They also will attack the continued growth of the federal bureaucracy. House Republican Leader Gerald Ford recently charged that the executive branch has become a "bureaucratic jungle" with some 42 separate agencies involved in education alone. The last 10 years of Democrat-controlled Congresses, he said, have pushed the federal payroll up 175,000 people, and expenditures up \$57 billion.

• **INFLUENCE PEDDLING** — With the government's indictment of former Senate aide Bobby Baker, Republicans will cite him to show just how close influence peddling has been to Lyndon Johnson. They are also likely to raise questions about such family matters as the Johnsons' Texas TV interests; whether Luci's boy friend, Pat Nugent, got special treatment in his assignment to Washington and employment on Capitol Hill; and whether Lady Bird's brother really should have received a \$75-a-day job as a consultant in Jordan on how to sell more handicrafts to tourists.

But these subsidiary issues will, for the most part, just be talking points, pinning down the convictions of those already inclined. In terms of actually switching voters or influencing the truly independent and undecided, only Viet Nam and the Great Society seem to have enough steam behind them.

War the big question mark

While there is complete agreement that the war in Viet Nam will be the top issue, no political pro can predict with certainty at this stage just what position each side finally will take. There is even doubt as to which side will benefit. The pros know only that every report from the grassroots shows that concern about Viet Nam outweighs all other issues. One

only has to read the *Congressional Record* to see how this preoccupation on the part of the citizens is reflected by their representatives.

The posture of the war on election day will, of course, be crucial in deciding which party will be helped. If the war is ended by then, with a settlement that seems honorable and likely to keep the South Vietnamese people out from under communist domination, there can be no doubt that Democratic candidates will have a great advantage. They will be able to ride in on the inevitable wave of public acclaim for Lyndon Johnson's statesmanship and generalship. The same may be true if the war appears to be nearing a satisfactory conclusion or if meaningful negotiations are under way. Chances are that only a small "bomb-Peking" faction would find such a situation unpalatable.

But if, as seems far more likely, the war is continuing its deadly and frustrating course, the American casualty lists growing longer and the American investment and the danger of wider conflict growing larger, then the Republicans can expect to profit.

"It's those boxes," one Democratic party leader said gravely (and privately) recently. "When those boxes come home with the boys inside, that's what hurts." It sounded callous, but it wasn't meant that way; it was grim political realism.

The line the Republicans are likely to take will vary. Some candidates will argue that the President should go all out in bombing, blockading, attacking — get the war over and the casualties ended, no matter what the risk. Others will say the President has already gone too far and seems incapable of finding a way out. Still others may simply announce worriedly that despite reservations on particular points they back the President.

The fact is that what the Republicans say may not matter too much; they may not even have to campaign actively on the issue. The war is always present, in the headlines and pictures and casualty lists, and the Republicans, as the out-party, probably stand to benefit eventually from public uneasiness or unhappiness without overtly trying to capitalize on it. Moreover, they are likely to be aided by the fact that a number of leading Democrats, men of stature and responsibility, have

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ISSUES

continued

been speaking out in voices different from that of the President. This internal Democratic debate is almost sure to continue, and the Republicans are in the happy situation of being able to sit back and let the picture of a divided and confused party develop.

The Democrats may be able to make some time with the argument that:

1. The President has conducted this war against communist aggression in a responsible and skillful way.
2. The people owe him a good, firm majority in Congress if he is to get the country through the difficult months and years ahead.

In the past, foreign troubles have often produced a don't-change-horses-in-midstream, rally-round-the-President feeling. Many think John F. Kennedy's success in the October, 1962, missile crisis in Cuba accounted for the good Democratic showing in the Congressional elections a few days later. But then, the crisis was sharp and dramatic, not a long, dreary war.

Tackling the Great Society

In contrast to the delicate treatment the Viet Nam issue is likely to get, the campaign fighting over the Great Society will be spirited and specific.

First there will be the general issue of guns versus butter—the Republican charge that the Administration is spending too freely on domestic welfare programs at a time when the high cost of Viet Nam is kicking up budget totals and adding to already heavy inflationary pressures. It will take some care to avoid appearing to be against seemingly popular programs. In fact, Republicans will be joining Democrats in attacking some of President Johnson's proposed economies, such as cutting back on the school milk program. But G. O. P. candidates again and again will raise the question in a generalized way—as, for example, when Sen. George Murphy of California recently said: "The American people will not object to paying for both guns and butter, but they will object to paying for the unnecessary butterfat of the Great Society."

The Republican attack will be heavy, particularly on the way the Johnson team is administering the new programs. The Republicans may find a receptive audience

among people displaced by urban renewal, old folks who have already run into red tape in the medicare program, business hit by government competition and regulation.

The Republicans are especially confident they can attack the administration of the poverty program effectively—and do it without appearing to be against the poor.

As Rep. William Ayres, ranking Republican on the House Education and Labor Committee, put it: "Republicans are not opposed to the poverty program. What we are concerned about is the way it is being run." And Republican House Leader Ford has said: "We must liberate the war on poverty from waste, controversy and the bad odor of political bossism. . . . How many of the poor have actually received any of the twenty-three hundred million taxpayers' dollars from the present war on poverty? Tragically, very few."

Variations on this theme will be heard all over the country as the campaign heats up. Republican candidates will dwell on reports of botched job training programs at Camp Breckenridge, Ky., and Camp Kilmer, N.J.; the charge by Mayor William F. Walsh of Syracuse that a \$314,000 program there was intended mainly to train agitators and teach "Marxian doctrine of class conflict"; the attempt to pump poverty funds into swank Beverly Hills, Calif., which didn't want any. Party headquarters has a long list of such cases ready for candidates. Each candidate will be looking for additional examples in his own area to dramatize things more sharply for the local voters.

A parallel theme is the rising cost of living, particularly the impact government spending is having on pushing prices higher. A recent Lou Harris poll declared: "The cost of living is now emerging as a storm that could upset the relative tranquility of consensus that President Johnson has so carefully wrought in the domestic economy. The nation's housewives are nearly unanimous in their view that the cost of living has risen in the past year—and they do not like the trend. The potential dynamite in the cost of living lies in the fact that, by nearly a three-to-two margin, women shoppers believe that increases can be avoided."

"\$8 billion sales tax"

Republican House Leader Gerald Ford noted that the cost of living is two per cent higher than

it was a year ago and said that at the current level of consumer spending this is the "equivalent of a secret sales tax that silently steals some \$8 billion from the pockets of the American people." He charged that the Administration bludgeons business and workers not to raise prices and wages, but at the same time contributes to the inflationary spiral by constantly boosting federal spending. "The real villain," he said, "is the Administration, which will increase the cost of the federal government by \$26 billion in a two year period."

It is possible that the President may have to seek a major income tax increase to pay for Viet Nam even before the election. This would come on top of tax boosts already asked in the form of corporate tax speedup, revised withholding rates and cancellation of recent reductions in telephone and auto excises. If he does ask for such an increase, he will probably get it. In fact the Republicans may not even fight very hard against it in Congress. But they will surely use it on the campaign trail as further evidence that this Administration is spreading too much butter.

The Democrats concede that a general tax increase could be a major political danger. They also concede that they will be in trouble if prices continue to rise. But they think benefits of the Great Society will far outbalance these factors.

"Sure there has been some mismanagement in the poverty program," one party official said recently. "But that is true of any big program that gets off the ground in a hurry. And such stories are more than outweighed by the good the poverty program is doing."

Democratic candidates will dwell on the Administration's entire domestic record—passage of bills such as medicare, aid to education, highway beautification, civil rights, aid to depressed areas, the Appalachia program and the rest—and promise to help the President continue his march to the Great Society with more of the same.

While talking of these programs in the abstract, every Democratic incumbent seeking reelection will try to show what he has done for his constituents in very concrete terms. "I tell our candidates," says one Democratic professional, "to get three or four bread and butter projects and hammer away at them—not bread and butter issues like medicare or aid to ed-

ucation, mind you, but bread and butter projects, like post offices and dams and government loans and grants in the home district."

The entire party apparatus is cranked up to help provide such material. Democratic candidates, down to the lowliest freshman, can arrange for big two or three-day conferences, back in their home districts or in Washington, attended by top-level Administration officials. Business, labor, farm, civic and organizational leaders from the home district are invited and the government spokesmen run down the list of all federal aid available and how to get it.

Help for Democratic Congressmen

Democratic Congressmen in tight races meet periodically with a panel of officials from a dozen different agencies and list projects they'd like to see faster action on—such as dams, hospitals, airports, housing grants.

The party's headquarters in Washington stands ready to help each candidate assemble material showing just what the Great Society has done for his district and state. This kind of rundown can be impressive. Rep. Henry Reuss of Milwaukee, for example, listed 10 benefits he and the Great Society had brought to his district, including the training of 2,032 Milwaukeeans in new skills, \$3,717,000 for the poor through the war on poverty, a small business development center, more than \$35 million in various types of aid to education and even removal of trees infected by elm blight by men from the poverty program's Job Corps.

With the poverty program pouring out grants at the rate of \$1.5 billion a year, with aid to education mounting and supposedly helping to hold down local property tax rates, with other open-handed Great Society programs just beginning to move into the operational phase, just about every Democratic Congressman and Senator can put together similarly impressive lists, combining new style "welfare pork" and old-fashioned public works pork for the folks at home. And Democratic candidates challenging incumbent Republicans can outline the benefits already obtained for their districts even with a Republican representative in Washington and suggest, not too subtly, that a Democrat, tied to the Administration in the White House, can do much, much more.—CHARLES B. SEIB

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**"It took somebody
all this time to figure that out?"**



Everybody wondered why it took

the NLRB a year to find out

The union cards were phony



Labor Board procedures permitted picketing even after discovery of forgeries undercut union's case

Near midnight, Dec. 8, 1964, the president of a multimillion-dollar drug chain was awakened by the delivery of a telegram from a union claiming to represent a majority of the drug chain's pharmacists. The union was formally demanding recognition as the bargaining agent for the pharmacists.

A year later, the union's claim that it had a majority was exploded when some pharmacists testified that their signatures had been forged on union authorization cards filed by the union.

Workers sign union authorization cards to express interest in being represented by a union or in having the matter decided by secret ballot in an election supervised by the National Labor Relations Board. In some cases, the NLRB, the government agency which handles labor-management disputes over union bargaining, will compel a company to recognize a union on the basis of these cards alone, without an election.

During the year that elapsed before the union claims were shattered, the union blasted away at the company with picketing, leaflets, radio broadcasts, sound trucks, posters and airplane streamers. The union's campaign was based largely on a complaint issued by the NLRB, which the company had not yet had a chance to disprove.

The NLRB complaint, ironically, was in turn based partly on the cards—some of them phony—filed by the union with the Board.

The role of the NLRB in this case, involving the Washington area Drug Fair chain and the Retail Store Employees Union, Local 400, helps explain why the Board has become a prime target in business's campaign for reform of the nation's labor laws. The case dramatizes in across-the-board

RETAIL STORE EMPLOYEES UNION, LOCAL 400
Chartered by
RETAIL CLERKS INTERNATIONAL ASSOCIATION, AFL-CIO
AUTHORIZATION FOR REPRESENTATION

Desiring to enjoy the rights and benefits of collective bargaining I, the undersigned,

employee of the Drug Fair
Store _____ Firm Name _____ Date _____
Address 8555 Virginia Ave S. Spring Employed _____

Employed as Pharmacist Job Title _____ Dept. and Store No. _____

Home Address 6803 Glenbrook Rd. Bethesda Md Phone CH 4-3890

hereby authorize Retail Store Employees Union, Local 400, to represent me for the purposes of collective bargaining, respecting rates of pay, wages, hours of employment, or other conditions of employment, in accordance with applicable law.

10-14-64 Date _____
Miller J. Poppleton Signature of Employee
Poppleton GC14A



Pharmacist Miller J. Poppleton swore he never signed the union authorization card (upper left) purporting to bear his signature. He was the second witness to claim forgery and his testimony finally killed the union's claim to a majority. That card and that of pharmacist Joseph W. Rotter are shown on this page, as are reproductions of their authenticated signatures.

Official exhibits, NLRB Case 5-CA-3037

MILLER J. POPPLETON
6803 GLENSBROOK ROAD
BETHESDA 14, MARYLAND

No. 1240
1/51 1965 65-320
521

Netro Finals \$33⁰⁰

Thirty Three and 00/100 DOLLARS

ate National Bank
BETHESDA, MARYLAND

MILLER J. POPPLETON

Miller J. Poppleton
GC-142
"0000003300"

RETAIL STORE EMPLOYEES UNION, LOCAL 400
Chartered by
RETAIL CLERKS INTERNATIONAL ASSOCIATION, AFL-CIO
AUTHORIZATION FOR REPRESENTATION

to enjoy the rights and benefits of collective bargaining I, the undersigned,

of the Drug Fair
Firm Name _____ Date _____
8555 Penn Ave Wash. D.C. Employed _____

as Pharmacist Job Title _____ Dept. and Store No. _____

Address 8824 Liner Ln S. Spring Phone JK 8-3561

authorize Retail Store Employees Union, Local 400, to represent me for the purposes of collective bargaining, respecting rates of pay, wages, hours of employment, or other conditions of employment, in accordance with applicable law.

5-64 Date _____
Joe Rotter Signature of Employee
ROTTER GC13

STATE OF MARYLAND
MOTOR VEHICLE OPERATOR'S LICENSE

2-360-441-887-482 R JUN 19
OPERATOR'S LICENSE NUMBER

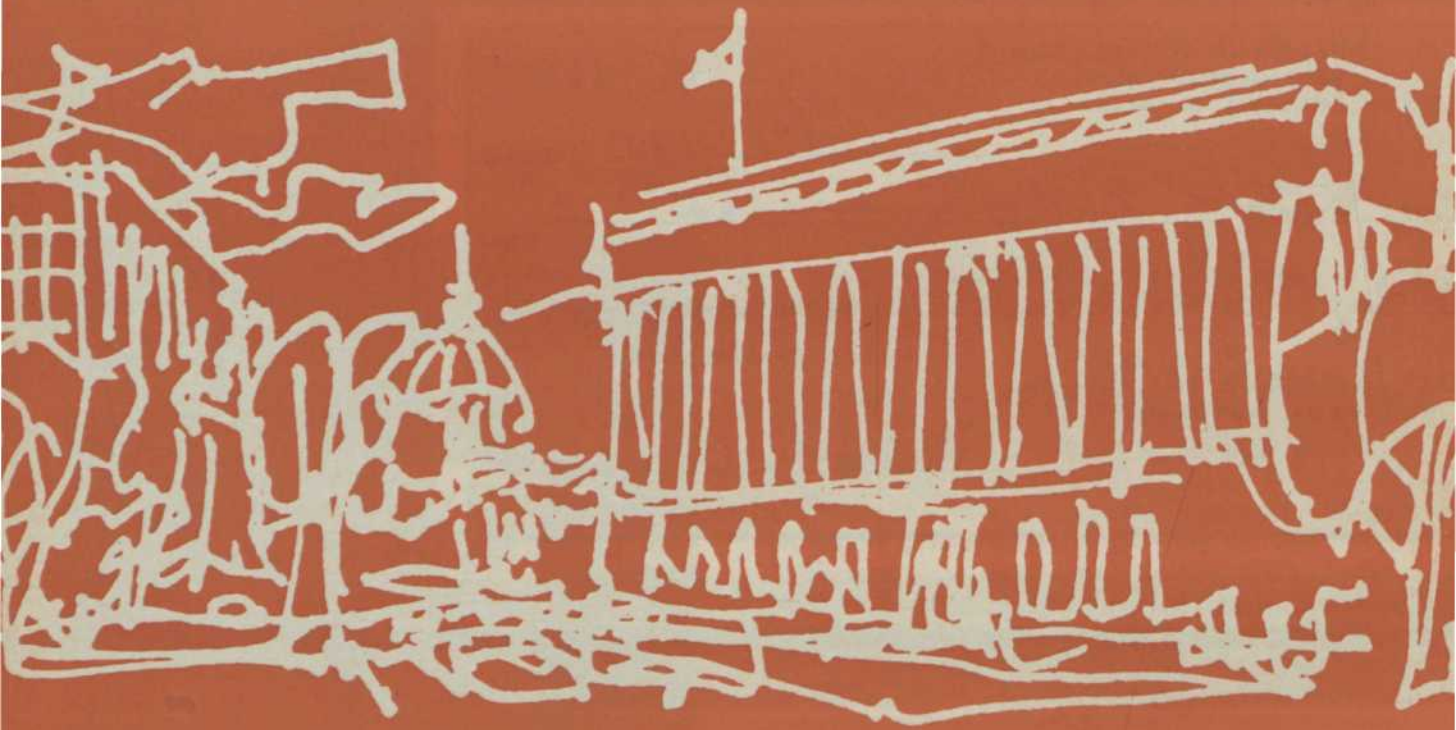
5-11 170 W M 06/24/29
HEIGHT WEIGHT RACE SEX BIRTH DATE

JOSEPH WILLIAM ROTTER
11800 LOVEJOY ST
SILVER SPRING MD M CO

Joseph William Rotter
WRITTEN SIGNATURE OF OPERATOR

GC-13

Colorful Informative Important



On May 1-4, the National Chamber's 54th Annual Meeting will be held in Washington.

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Informative: It is informative, not only because the speakers are top national figures in business and government, who know what they are talking about, but also because the four-day program is carefully designed to give you a well-rounded, dependable picture of present trends and developments, and of what's ahead.

Important: The National Chamber's Annual Meeting is important, not only because out of it come decisions as to the course of action organized business should take in the coming year, but also because the men and women who attend this meeting go home from it more determined than ever before to make their leadership count in America's future. Which is the purpose of the National Chamber.

Write today for detailed information.

CHAMBER OF COMMERCE OF THE UNITED STATES

Washington, D.C. / 20006

_____, 1966

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NAME _____

TITLE _____

FIRM OR ORGANIZATION _____

STREET ADDRESS _____

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CARDS WERE PHONY

continued

fashion why business had long charged that it is almost impossible for management to get a fair shake from the Board.

And it shows what management can expect, in the absence of reform, as unions attempt to keep pace with the shifting composition of the work force by organizing white-collar technical and professional employees.

Specifically, it offers fresh evidence to:

- Question the justice of NLRB's accepting authorization cards (rather than elections) to establish union recognition.
- Challenge NLRB's way of grouping employees into units for bargaining and recognition purposes. Drug Fair calls it "gerrymandering" the unit to reflect apparent union strength.
- Doubt NLRB efficiency in investigating union charges before issuing complaints. "The Board had those cards for 11 months," declares Earle K. Shawe, chief attorney for the company. "We found a bunch of forgeries in just four hours once we learned who the signers were supposed to be."
- Resent union use of the Board's official complaints as a license to malign an employer who hasn't had his day in court.

Union drive begins

Here's how the case developed, according to participants and the official record.

A group of unions including the clerks was rejected by other employees in 1961 in an election by a rousing 1,759 to 158, recalls

Drug Fair Vice President Myron Gerber.

This helps explain the union's allergy to elections.

A drive to organize the pharmacists by 1964 appeared stalled.

"Then they came up with a gimmick which apparently enabled them to sign up a lot more pharmacists," relates Mr. Gerber.

The gimmick: The union tried to show its solicitude for pharmacists by co-sponsoring a suit under the Fair Labor Standards Act claiming they are entitled to time-and-a-half pay for overtime. Extra shifts are paid at the normal rate.

On Dec. 1, 1964, the company gave notice of meetings for all pharmacists in its 80-odd stores. The company wanted to explain its position on the suit—that federal law exempts professionals from overtime rates. The company also wanted to announce revised stock options and improved sick benefits.

The meeting was set for Dec. 9.

Then came the telegram to Drug Fair President Milton Elsbeg near midnight Dec. 8. It was significant in both wording and timing.

Local 400 claimed it had been "authorized by a substantial majority of the pharmacists employed by Drug Fair-Community Drug Co., Inc." to represent them for collective bargaining.

"The telegram was an obvious device to get their demand on record before the (Dec. 9) meeting," declares attorney Daniel P. Dooley, an associate of Mr. Shawe.

What was important in the timing of the telegram was this:

Offers to improve benefits during an organizing drive or after a union demand for recognition can be interpreted as an effort to undermine union strength and can be judged by the NLRB as an unfair labor practice.

The company held its Dec. 9 meeting. On Dec. 14 it sent a telegram to the union expressing doubt that it represented a majority. It observed that the NLRB itself regards authorization cards as unreliable in gauging employee support for a union and indicated a preference for an NLRB election. The company thus refused to recognize the union.

The following month—"as they've done every January for more than five years," according to Mr. Dooley—Drug Fair raised its pharmacists' pay.

On Jan. 22, 1965, the union filed with the NLRB a raft of

charges against the company. It repeated its claim to represent a majority among pharmacists employed by Drug Fair-Community Drug Co., Inc.

These would include pharmacists employed by Drug Fair, not only in its own stores, but in leased drug departments in eight G.E.M. International Inc.'s discount stores, a larger unit. So more authorization cards would be needed for a majority.

Then the union launched its vilification campaign against the company.

Company requests election

As in the past, Drug Fair sought an NLRB election to support its position but was refused because of the union charges "This is sad, sad testimony on our National Labor Relations Board," comments Mr. Gerber.

Meanwhile, Thomas Walsh, a representative of the Baltimore regional office of the NLRB, asked the company for data on all payrolls for Drug Fair-Community Drug, including those covering Drug Fair's GEM employees. The company complied in February.

On Aug. 12, the NLRB issued a formal complaint against the company, alleging refusal to bargain and illegal improvement of pay and benefits. And it stated that the union had a majority of pharmacists working in Drug Fair stores—excluding GEM.

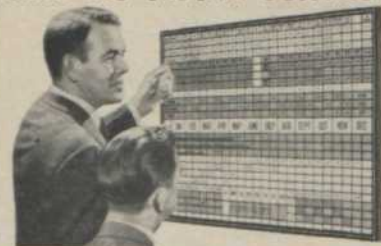
On this basis the company charges that the Board pared down the group to the regular Drug Fair stores, where the union appeared to have an edge, since the union couldn't claim a majority in a unit including GEM. Inexplicably the NLRB complaint was signed by John A. Penello, an NLRB regional director who had ruled in the 1961 Drug Fair case that "Drug Fair employees at the GEM location . . . are included in the unit."

Once the NLRB complaint was out, the union stepped up its campaign so much that a dues increase became necessary to finance the effort.

Pickets marched at stores and on bridges between Washington and the populous Virginia suburbs at rush hour. Sound trucks appeared on parking lots, cars with signs on top traveled between stores. A plane with an anti-Drug Fair streamer flew over nearby Virginia.

Local radio stations carried anti-company ads. Some 77 one min-

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ute announcements were carried by four stations in one week alone. The message:

"Licensed pharmacists who are employed by Drug Fair, the Community Drug Co., have been denied their right to be represented by a union of their own choice.

"Substantiating this, the National Labor Relations Board has issued a formal complaint against Drug Fair in which it affirms that the . . . management has illegally refused to recognize and bargain with Retail Clerks Union 400."

Ironically, an official at the Drug Fair store in the same building as the NLRB headquarters at 1717 Pennsylvania Ave. N. W. told NATION'S BUSINESS, along about supertime union hirelings picketing the store would plop down their do-not-patronize signs around the corner and come inside to eat.

What has been the effect of the union campaign on the company? Mr. Shawe says it must run into "untold thousands" of dollars.

"There's no question that it's got to hurt your business," says Mr. Gerber. But damage is hard to measure. One rough indication is sales figures. The company's rate of increase has declined.

Moreover, prestige or standing in the community and the industry was hurt. For example, Drug Fair found that the union campaign seriously harmed its efforts to recruit hard-to-find pharmacists.

When hearings began late fall, the NLRB counsel contended that the union had a majority of two—81 authorization cards for 159 pharmacists.

Angel R. Morales, employed in a Drug Fair store in Virginia,

testified that James W. Lee, a union organizer, didn't tell the whole story about the purpose of authorization cards for which he sought signatures.

"Mr. Lee told me, 'Well, that only gives you the opportunity for . . . an election.' He said it doesn't make me a member of the union . . . I was never told different."

Five other witnesses testified they signed union cards in the belief their sole purpose was to call an election. Moreover, Local President Rex Clifford had written all pharmacists that a secret-ballot election would be held.

The first of the union authorization cards to be exposed as "fraudulently obtained or forged," in the words of Trial Examiner Max Rosenberg was denounced by a witness called by the government.

He was Joseph W. Rotter, a pharmacist who by then had left Drug Fair to operate his own store. Like several previous witnesses, he was handed a card and asked to examine the signature. Unlike the others, however, he replied:

"This is not my signature." He testified further that he had not attended any union meetings or discussed joining the union with any agent. The union's majority shrank to one.

A recess was called and Mr. Dooley was asked if he had knowledge of any other questionable cards. He said, "Yes."

The next witness called was Miller J. Poppleton, a genial, 59 year old pharmacist who had practiced his profession since 1929.

A former president of the District of Columbia Pharmaceutical Association and secretary of the D.C. Board of Pharmacy, he feels that pharmacists belong in professional associations, not labor unions.

He was handed a signed card authorizing Retail Store Employees Union, Local 400, Retail Clerks International Assn., AFL-CIO, to represent "Miller Poppleton" in bargaining with his employer.

"Is that your signature?" asked Charles B. Slaughter, the NLRB counsel prosecuting Drug Fair.

"No, sir. That is not my signature," Mr. Poppleton said and chuckled in amazement. ("I had to laugh," he later told NATION'S BUSINESS. "It was such a bad forgery.")

That took care of the union's majority. Four other pharmacists who were prepared to challenge cards were not called.

The authorization cards have been turned over to the Justice Department. It is a violation of federal law to submit forged documents to a federal agency.

At a reconvened session in Washington three weeks later, the trial examiner dismissed the refusal-to-bargain charge, reasoning that the union never had a majority with which to justify a demand for recognition.

By this time the union's position was a shambles.

Nevertheless, the NLRB examiner refused either to dismiss the remaining union charges or to proceed with hearings on them.

He indefinitely postponed consideration of the other union charges relating to whether it was proper for the company to offer improved pay at the time it did.

To rub it in, participants leaving the Washington headquarters of NLRB were confronted with pickets pushing leaflets claiming:

"The Drug Fair management has interfered with, harassed, restrained and coerced its employees to prevent them from exercising their rights to join a union for the purposes of collective bargaining."

Lawyers Shawe and Dooley filed a formal request for dismissal, with a copy to NLRB General Counsel Arnold Ordman, arguing that the union was "arrogantly perpetuating the abuse of Board processes which was perpetrated when this complaint was issued and is doing it at the Board's own premises. . . ."

Mr. Ordman replied: "I am deeply concerned that the agency's processes not be abused and that the agency not be utilized as an instrument for abusing others subject to its processes.

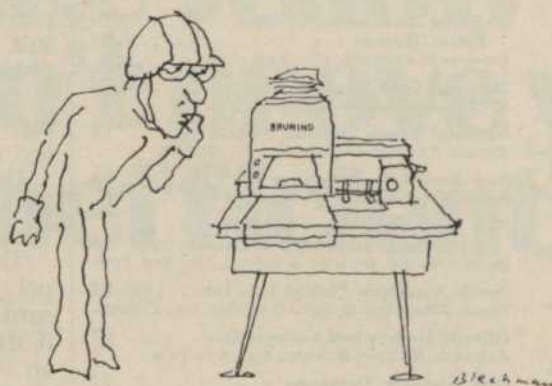
"On the other hand, I must be equally concerned that the rights of innocent parties, particularly

Westinghouse Electric Corp. provides cafeterias for its Baltimore area employees. Some time ago the price of carryout coffee went up a penny a cup. The union howled to Uncle Sam.

The National Labor Relations Board solemnly ruled that Westinghouse must bargain with the union over such vital "conditions of employment," despite the company's argument that prices are determined by the independent caterer operating the cafeterias under contract.

Two NLRB members dissented. They said:

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continued

the rights of innocent employees, not be adversely impaired as a vicarious consequence of penalizing an actual wrongdoer." So, no dismissal.

In turn, Mr. Shawe wrote Mr. Ordman: "I believe that the General Counsel's duty to protect the rights of innocent persons also extends to innocent employers, especially where, as here, the employer is made to suffer as a result of an abuse of the Board's processes."

At the root of the entire proceeding, of course, is the Board's policy regarding authorization cards.

Decisions of the Board itself have been referred to card checks as "notoriously unreliable."

The board ordinarily will compel recognition on the basis of cards showing a majority, however, if the employer can be stuck with an unfair labor practice charge that can be interpreted as making a fair election impossible.

Yet, at a Senate hearing on his reappointment last year, NLRB chairman Frank McCulloch conceded the Board compelled recognition of a union nine times in the past four years on the basis of authorization cards, where no unfair labor practice by the employer was shown.

Comments Mr. Shawe, himself a former NLRB regional attorney, a past co-chairman of the American Bar Association's committee on the NLRB and now head of the labor law section of the Baltimore Bar Association:

"The Board can't justify ordering an employer to bargain on the basis of cards just because of an alleged unfair practice. To the extent that an employer may illegally interfere with an organizing drive, there are other steps the Board can take other than ramming a union down the throats of employees and management alike.

"Indeed, the Board's present doctrine penalizes innocent employees in the guise of remedying so-called employer unfair labor practices.

"Legislation is needed to overturn the effect of the Board's use of cards to establish a union's majority status . . . which would prevent the Board from attributing majority status to a labor organization that refuses or fails the test of the ballot box."

END

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BITTER FRUIT

Washington now wants to launch a new "massive program" against urban blight despite its long record of failures in slum clearance.

Just recently the Detroit Common Council in a resolution listed examples of the sorry record of federal urban renewal there.

Detroit's city fathers, pleading for improvements, noted:

"... Lengthy delays in acquiring property. . . . Property is frequently vandalized during the delay, causing substantial financial loss . . . [and] procedures for early acquisition of property in urban renewal projects are unwieldy and do not lend themselves to the alleviation of hardships. . . ."

Other cities, too, are finding out—like the auto city—that when they bought federal urban renewal, they got a lemon.

Nation's Business

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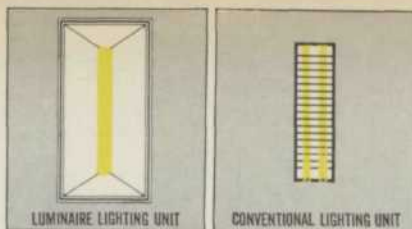
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